

ELEMENTARY

ECONOMICS MANUAL



Class HB 171

Book 5

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ELEMENTARY ECONOMICS MANUAL

CONSISTING OF

DEFINITIONS, QUIZ QUESTIONS, PROBLEMS AND
SUMMARIES OF ECONOMIC THEORIES

BASED UPON

ELY'S OUTLINES OF ECONOMICS

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PREFACE

The primary purpose of this manual is to meet the needs of the classes in elementary economics in the University of Wisconsin. It is the fifth revision and enlargement of a syllabus printed by the author for the use of his students in Washington and Lee University in 1908. Each revision has involved changes to remedy defects which actual experience in the class room have revealed.

Some new problems and quiz questions have also been suggested from time to time by members of the teaching staff and have finally become incorporated in the sets of problems found in this book.

This manual is based upon and designed for use in connection with Ely's *Outlines of Economics*. All the chapter headings and chapter numbers follow this text, with the exception of the chapters on Labor which are arranged with special reference to chapters 6, 7, 8, 9 and 10 in Carlton's *History and Problems of Organized Labor*. Outlines of recent laws such as the Federal Reserve Act, the Newlands Arbitration law and the new Anti-Trust Act, have also been included in order to make possible uniform required readings on these subjects.

While the definitions and summaries may be considered very dogmatic when viewed from the standpoint of advanced economic theory, it appears to the writer that a larger amount of positiveness is necessary when teaching beginners than is advisable in advanced courses. Collateral reading and class discussion is relied upon to bring out the controversial aspects of the theories outlined.

The definitions and summaries are intended primarily to give definiteness and unity to the teaching in the quiz sections. Some of the definitions are the result of compromises growing out of discussions carried on in the weekly conferences of the instructors in charge of quiz sections in the course. Among the men who in this way have directly and indirectly contributed to this work are:

MR. LEE BIDGOOD, Professor of Political Economy, University of Alabama.
MR. F. H. BIRD, Expert with the Federal Relations Commission.

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To each and all of them the author is indebted for suggestions as to form and content of definitions, questions and problems.

T. K. URDAHL.

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ELEMENTARY ECONOMICS MANUAL

DIRECTIONS TO STUDENTS.

Three methods of instruction are employed in this course. First, the quiz or discussion method which is customary in secondary schools, and in elementary courses in the university. Its purpose is largely discipline, and to teach the student to reason independently. The second is the lecture and research method which is adapted especially to advanced students. The subjects discussed in each lecture are to be supplemented by the student by investigations based on prescribed reading and on observation. The third is the preceptorial or voluntary conference method, an informal discussion or exchange of ideas between the individual students and their instructors.

QUESTIONS ON THE TEXT.

I. The student is expected to use the **questions in this syllabus** as a guide in his preparation for the class-room discussion. Each instructor will as far as possible follow the printed questions, although not necessarily in the order given in this syllabus. The student is required to read and master all the parts of the lesson assigned whether there are any questions on them or not, for every instructor may at any time supplement and expand the quiz questions whenever it is necessary for the proper development of the subject.

PROBLEM WORK.

II. Problems must be handed in **on time in ink in prescribed folders** and contain **page and volume references** to reading. Wherever the subject matter of a chapter lends itself to practical or abstract reasoning, a series of exercises or problems has been provided. From these, specific problems will be assigned each week by the instructors in charge of quiz sections. These problems must be worked up independently by every student and written in ink on paper of prescribed size

(5½x8½ inches) and enclosed in folders specially provided for such work. All such problems are due on the last quiz section of each week. In writing out the solution, the student is expected to **explain**, i. e., give reasons for each of his answers. Mere categorical statements will not suffice. Where argument is needed it is very important to put in every link in the chain of reasoning. In getting at the solution of the problem, the student should indicate volume and page references on all collateral reading used.

COLLATERAL READING.

III. Master at least one reference under each heading in the list of readings. **Read widely**, aim to follow some one text-book in addition to the required text. The collateral reading in Part I has for its purpose (a) to familiarize the student with the work and names of the leading writers on economics; (b) to enable the student to understand more fully the theories of the text by reading other explanations of the subject under discussion; (c) to place at the disposal of the student criticisms of the theories advanced in the text and lectures.

PRECEPTORIAL WORK.

IV. Keep a card on which you jot down unsettled points, questions or unsolved problems and take them to your instructor for personal help. Each instructor will arrange an office hour or series of office hours in such a way that each student in his class will be able to have conferences with him concerning his or her work. Each instructor will observe office hours regularly and will be glad to be of service to any student wishing help.

V. Four announced half hour written quizzes will be given during the lecture periods each semester in addition to the regular midsemester and final examinations. In addition to this a series of unannounced five minute exercises will be given from time to time during the lecture periods.

VI. The final grade is made up of an average of 1. The grades on the written quizzes. 2. The grades on midsemester and final examinations. 3. The grades on oral work in the quiz section and 4. The grades on problems and topics.

COLLATERAL READING TOPICS.

VII. In Part II, in addition to the reading on the lesson, the student is expected to group much of his reading about certain topics named in the syllabus and prescribed by the instructor. The notes taken by the student should then be arranged according to a carefully prepared outline like the following:

MODEL TOPIC FORM.

Apr. 20 1914.	<p style="text-align: center;">TOPIC IV.</p> <p style="text-align: center;">THE WISCONSIN TAX COMMISSION.</p>
<p>1. Report of Wis. Tax Comm. 1908. pp. 9-17.</p>	<p>I. History of the Tax Commission.</p> <p style="padding-left: 20px;">A. Organized in 1904.</p> <p style="padding-left: 40px;">1. Successor to Board of Assessment.</p> <p style="padding-left: 60px;">(a) Board of much more limited powers.</p> <p style="padding-left: 80px;">(1) Could merely equalize between counties.</p> <p style="padding-left: 80px;">(2) People suspicious of central authority.</p> <p style="padding-left: 40px;">2. One of the "progressive" measures.</p> <p style="padding-left: 40px;">3. Modeled after Massachusetts Commission.</p> <p style="padding-left: 20px;">B. Number of Commissioners reduced from five to three.</p> <p style="padding-left: 20px;">C. Expansion of work.</p> <p style="padding-left: 40px;">1. Supervision of local assessors.</p> <p style="padding-left: 60px;">(a) Uniform accounts introduced.</p>
<p>2. Statutes of Wis. 1907, 22-a3.</p>	<p>II. Powers granted to the Commission by law.</p> <p style="padding-left: 20px;">A. Right to summon witnesses.</p>

NOTE.—A minimum of six of these topics is required during the second semester.

RECORDS OF READINGS AND NOTE TAKING.

VIII. Every student is required to keep a record of reading done from week to week on a blank furnished by the department for this purpose. Outline notes on collateral reading are to be handed in at stated intervals to instructor. Full lecture notes must be taken in legible form by every student. In case of absence from class the student is expected to borrow some

fellow student's notes and copy the missing lecture. Leave from two to four inches of margin on the left hand side of each page of notes to be used for catch words or synopsis. Reading notes are to be handed in at request of instructor. Lecture notes must be ready for inspection at any lecture period.



CHAPTER I.

NATURE AND SCOPE OF ECONOMICS.

Questions on the text.

1. What is a science? Is economics a science?
2. Is economics concerned primarily with wealth or man?
3. What two kinds of poverty are there? What determines whether a man is really rich or not?
4. Is the chief aim of economics to teach men how to get rich?
5. Is economics primarily a practical, i. e., vocational study; is it primarily cultural?
6. Name the chief groups of sciences.
7. To what group does economics belong? Name four other sciences in this group.
8. What is the principal difference between this group and the other groups of sciences?
9. What is a scientific law? Contrast with a statutory law; with an ethical law; with the laws of mathematics.
10. Why are economic laws less **eternal** and **invariable** in their application than the laws of physics or chemistry?
11. May these laws ever be changed by the **conscious effort** of man himself? How?
12. What is the difference between **natural** selection and **artificial** selection? How does this bear upon economic laws?
13. With what kinds of **economies** is **economic** science most concerned?
14. Contrast the size of the modern economic unit or area with the mediaeval unit or area. How has the European war affected your well being?
15. "Man has progressed from independence to dependence, and from dependence to interdependence." Explain.
16. What are the chief purposes of economic study?
17. Why is economic study more important today than ever before?

Problems.

1. Read the headings of the leading articles in the current number of the Literary Digest and state which ones are largely economic in character.
2. Read accounts of candidates for office in the state primary bulletin and estimate the percentage of economic problems, political problems and other problems in the statements of the group.
3. What **political, economic** and other issues are there in the present campaign in Wisconsin?
4. Congress during the past session passed the following important measures. Which ones are largely economic in character?

Joint Resolution for the relief of the destitute in Mexico.

Act to reduce tariff duties and to provide revenue.

Act providing legislation for Panama Exposition.

Act providing for free importation of articles for the Panama Exposition.

Act restricting the use of the injunction in labor disputes.

Act providing for the mediation, conciliation and arbitration of controversies between employers and employees.

Act relating to the carrying of dangerous articles on passenger steamers.

Act to reduce taxation to provide revenue for the government.

Act making appropriations for fortifications and works of defense.

Act relating to proof of signatures and handwriting in any process before a U. S. court.

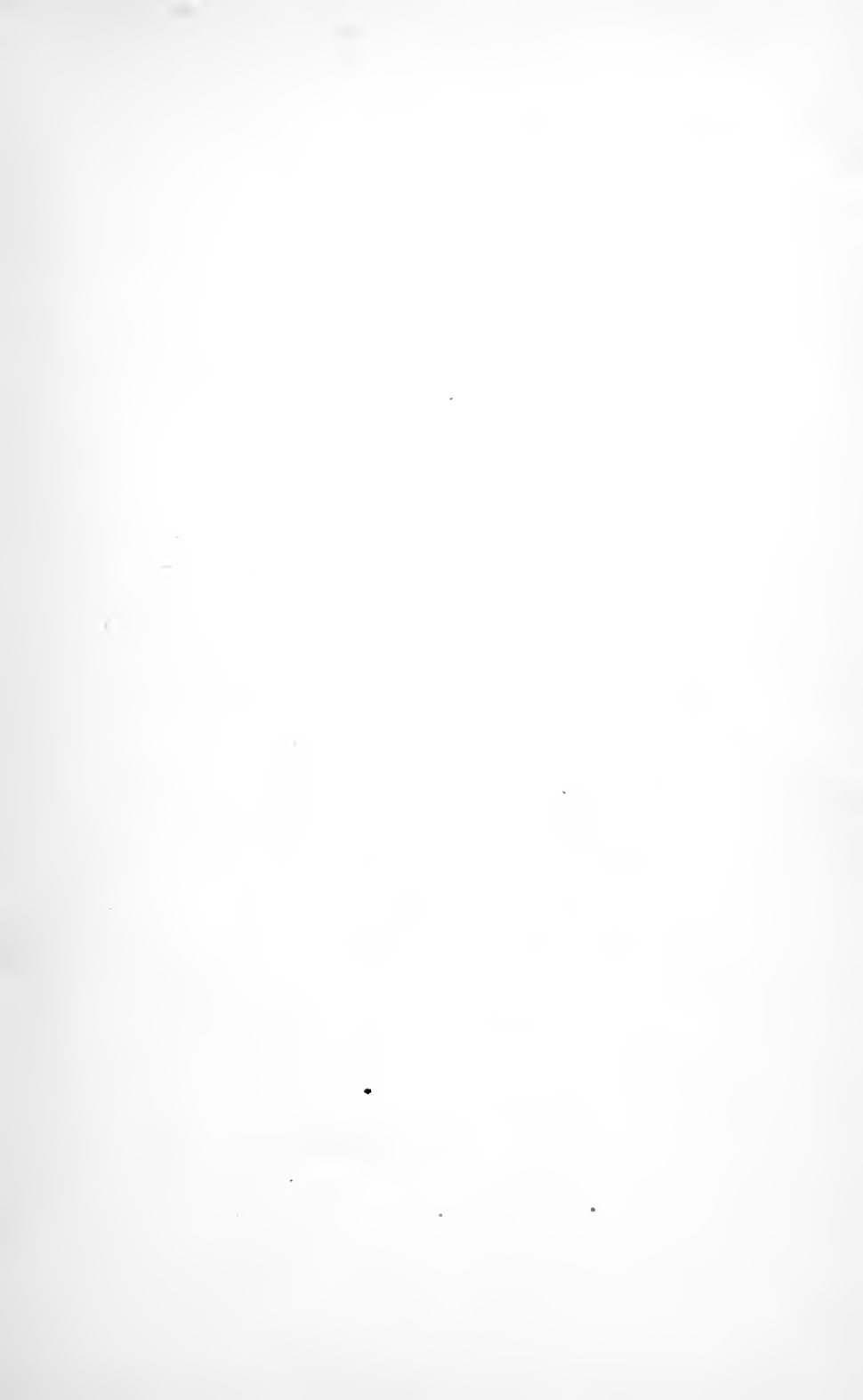
Act divesting intoxicating liquors of their interstate character in certain cases.

Act making appropriations for the support of the army.

Act extending authority to receive certified checks drawn on National Banks, Trust Companies and State Banks in payment of duties on imports, and internal taxes and all public revenues.

Act relating to invalid pensions and accident insurance.

Act creating a department of labor.



- Act making appropriations for naval service.
- Act providing for the establishment of Federal Reserve Banks.
- Act regulating the loaning of money on securities of persons, firms, and corporations.
- Act relating to the limitation of hours of service of laborers and mechanics in employ of the government.
- Act extending the power of the Commissioner General of Immigration.
- Act providing for an enlarged homestead.

CHAPTER II.

CHARACTERISTICS OF EXISTING ECONOMIC ORDER.

Quiz Questions.

1. Name the elements of environment of man that are essentially part of nature or are of natural origin.
2. Name the chief elements that are largely human, i. e., man-made arrangements.
3. Name some of the latter which are legal; which are economic.
4. Enumerate the legal foundations of the present economic system. What legal conditions are necessary to the existence of the present economic system?
5. Name the chief economic features of the present industrial system.
6. Explain four different kinds of freedom included in the concept "industrial liberty."
7. What kinds of freedom are guaranteed in the federal constitution?
8. What kinds of freedom are being expanded and what kinds are being restricted in modern times?
9. What is meant by competition? Contrast with rivalry.
10. Does custom ever interfere with competition? Cite examples.
11. Is custom or competition dominant in the management of cotton factories? funerals? steel mills? weddings? building operations? churches? Which have changed most rapidly?
12. Can effective competition exist without **freedom of contract**?
13. Can extensive trade exist without division of labor?
14. What is the essential difference between competitive and monopolistic industry?
15. In what two ways does the average man take part in the competitive contest?



Problems.

1. Discuss the evolution of the property concept under the following heads:
 - (a) Origin of private property.
 - (b) Property in land.
 - (c) Property in human beings.
 - (d) Property in tangibles, e. g. stocks and bonds.
 - (e) Limitations upon property rights, e. g. eminent domain, taxation, police power.

References:

ELY, *Property and Contract*, pp. 361-415.

2. Discuss the evolution of freedom of contract under the following heads:
 - (a) Contracts and their enforcement in primitive civilization.
 - (b) Sanctity of contract and the development of credit and banking institutions.
 - (c) Contract in the Federal Constitution.
 - (d) The Dartmouth College Case and the extension of the concept to franchises.
 - (e) Limitations upon freedom of contract in cases of women and children.
3. Write an account of the organization of production in England before the Industrial Revolution.

References:

ADAM SMITH'S *Wealth of Nations*. Book I, Ch. X, Part II.

CHAPTERS III AND IV.

THE EVOLUTION OF INDUSTRIAL SOCIETY.

Quiz Questions.

1. Contrast evolution with revolution.
2. Define economic civilization. How do you measure the degree of economic civilization which a nation has attained?
3. Using control over nature as a principle of classification, name the five stages into which industrial history is classified.
4. In what stage does the **Domestic System** occur? What are the characteristics of the system?
5. In what stage does the **Mercantile System** occur? Enumerate the chief features of the system.
6. What stages are there if the size and character of the economic unit is taken as the principle of classification?
7. What classification have you if the condition of labor is made the principle of classification?
8. What are the chief characteristics of the pastoral stage?
9. Name the most important characteristic of the agricultural stage.
10. What period in English history would be included in the agricultural stage?
11. What are the characteristics of the manorial system?
12. What changes were wrought in the manorial system by the Norman conquest?
13. What is meant by the Industrial Revolution?
14. When and where did it occur?
15. What book is characterized by Professor Ely as the "most famous book ever written on economics?"
16. What inventions helped to usher in the Industrial Revolution, in the textile industry; in the iron industry; in transportation?
17. What agricultural changes were ushered in by the Industrial Revolution?

18. What effect did the Industrial Revolution have upon the English laborers?
19. What effect did it have upon English industry and markets?
20. What is meant by the policy of "*laissez faire*"?
21. Name examples of the reaction against the *laissez faire* policy in England after 1850.

CHAPTER V.

THE ECONOMIC DEVELOPMENT OF THE UNITED STATES.

1. In what respects has the economic development of the United States differed from that of Europe?
2. According to the first classification, what **economic** stages has the United States passed through in the last two hundred years?
3. Are the different sections of the country in different industrial stages at the present time?
4. What is meant by sectionalism?
5. Enumerate the chief sectional struggles in the history of the United States.
6. What effect has the rapid expansion of population over the continent had upon the racial traits and characteristics of the American people?
7. What is meant by the race-suicide problem?
8. Explain the significance of the city problem.
9. What do you understand by the negro problem?
10. What are the economic aspects of the negro problem?
11. What races has the United States failed to amalgamate?
12. Explain the public land problem.
13. What influence has free land had on the character of the American laborer?

Problems (Topics).

1. The **city problem** in the United States.

References:

HART, *The Rise of the American Cities.*

ORTH, S. P., *Socialism and Democracy in Europe.*

STRONG, JOSIAH, *The Challenge of the City.*

WEBER, A. F., *Growth of Cities in the 19th Century.*

2. **The land of the landless**, or the effects of the American methods of disposing of the public land upon American industry and life.



3. **A million immigrants a year**—their effect upon industry, life and government in the United States.

References:

- WARNE, *The Immigrant Invasion*, p. 120.
OGG, *World's Work*, XIV, 1879.
ROSS, E. A., *Changing America*, p. 32.
ROBERTS, *The New Immigration*.
COMMONS, J. R., *Races and Immigrants in America*,
p. 120.
HOURWICH, I. A., *Emigration and Labor*.
MAYO-SMITH, R., *Emigration and Immigration*.

CHAPTER VI.

THE ECONOMIC DEVELOPMENT OF THE UNITED STATES.

1. What evidence is there that Mercantilism ever flourished in the American colonies?
2. What were colonies for, according to the Mercantile doctrine?
3. Name the chief features of the Navigation Acts.
4. Enumerate the chief industries in the American colonies in 1776.
5. What effect did the Revolutionary War have on American industries?
6. Where did the factory system first become established in America?
7. Why did it develop at that time?
8. Did America have an industrial revolution?
9. Why were the evils growing out of the Industrial Revolution less in the United States than in England?
10. Has the migration from the country into the city been caused by a tendency toward consolidation of farms in the United States?
11. Has agriculture become a capitalistic industry?
12. Has the percentage of the population engaged in agriculture increased since 1840?
13. What is the chief difference between the form of organization of business now, and in the first half of the 19th century?
14. What effect has this change of organization had upon the relation of employers and employees?
15. Has the size of the industrial unit tended to increase or decrease?
16. What causes have brought about this result?
17. Contrast the effect of the Industrial Revolution on agriculture in England with the changes that occurred in agriculture in the United States.
18. Contrast integration with centralization of industry.

19. What is meant by the "turnpike" period in the history of American transportation?
20. When was the "river and canal period" of transportation and what were its chief characteristics?
21. What is the most important feature of the last period of transportation history?
22. Name five periods in the history of American trades unionism.
23. What counter movement among employers has the labor union movement produced?
24. How has the doctrine of "*laissez faire*" affected legislation in the United States?
25. What influence has this doctrine had on the interpretation of American laws?
26. Is a protective tariff in harmony with the doctrine of the *laissez faire*?
27. Name some laws passed in recent years that are contrary to the principle of *laissez faire*.

Problems.

1. When and by whom was the Mercantile System first applied?

See INGRAM, J. K., *History of Political Economy*, 36-45.

RABBENO, *Am. Com. Policy*, Ch. 1: 2-6. SCHMOLLER, *The Mercantile System*.

2. Was the English Mercantile policy with respect to colonies advantageous or injurious to the colonies?

See ADAM SMITH, *Wealth of Nations*, Bk. IV, Ch. 7, Pt. 2. RABBENO, Ch. 3. BEER, G. L. *Commercial Policy in England* (Cambridge History), Chaps. II and IV.

3. Was the English Mercantile policy advantageous to England?

See RICARDO, *Principles of Political Economy*, Ch. 25. RABBENO, 37-47. LORD, E., *Industrial Experiments in British Colonies of North America*, 56.

4. When, where and how did the changes corresponding to the Industrial Revolution in England take place in the United States?

See COMAN, *Industrial History of U. S.*, 180-18. BISHOP, J. L., *History of Am. Mnfrs.*, Ch. 3. *American State Papers—Finance II*, 666-689. BOGART, E. L., *Economic History of the United States*, 142-52.

5. Discuss the evolution of some integrated industry in the United States.

United States Steel, Smith's Story of Steel. General Electric Co. TARBELL, IDA, Standard Oil Co. TOWER, W. S., The Story of Oil.

CHAPTER VII.

ELEMENTARY CONCEPTS.

Definitions.

I. **WEALTH** from the Social point of view.

- (a) **Social Wealth** means the aggregate of material goods on hand at a given time.

WEALTH from the Individual point of view.

- (b) **Private Wealth** consists of economic goods or of rights to such goods, i. e., goods that possess utility and are relatively scarce.

II. **UTILITY** is the quality in goods of affording satisfaction to human want.

III. **PROPERTY** means legally recognized claims or rights to goods.

IV. **GOODS** from the economic point of view are things, services, or rights that are capable of satisfying human wants, i. e., are desired or wanted by human beings.

- (a) **Free goods** are those that at a given time and place and without incurring cost to any one exist in quantities sufficient to supply all wants for them.

- (b) **Economic goods** (see text).

V. **CAPITAL** from the Social point of view.

- (a) **Social Capital** means every product of past industry actually used or held for further production of social wealth.

VI. **CAPITAL** from the Individual point of view.

- (a) **Public Capital** consists of goods owned by a governmental organization and used in the production of social wealth or the acquisition of revenue.

- (b) **Private Capital** consists of goods, rights or privileges used in the production or acquisition of wealth for the owner.
- (c) **Acquisitive Wealth (acquisitive capital)** consists of all that part of *private* capital which is not used or held for the further production of social wealth.

Quiz Questions.

1. Name the chief motives for economic activity.
2. What is utility? Contrast goods having utility with mere things.
3. Contrast free goods with economic goods. Are free lunches in a saloon free goods? Are free text-books in a public school free goods?
4. Is hydrant water an economic good in Madison? Is lake water?
5. Is there a tendency towards increasing the number of free goods? How?
6. What two kinds of economic goods are there? Name some things that are economic goods today that were not economic goods ten years ago.
7. Cite an example of individual wealth which is also social wealth.
8. Cite an example of social wealth which is not individual wealth.
9. Contrast private wealth with private property.
10. Contrast social wealth with public wealth (possessions of govt.).
11. Contrast consumption goods with production goods.
12. What is private capital? Contrast social capital with public capital; social capital with acquisitive capital.
13. Is a piano social capital? Is a gambler's outfit social capital? Acquisitive capital?
14. Is it possible that the total wealth of a country may increase while the aggregate well-being is decreasing? Explain.
15. What is included in the concept of the social income of the people of the nation?
16. Is a surgeon's skill wealth? Why?

17. Name three characteristics of land that social capital does not possess.
18. Name the most important classes or categories of the wealth of our nation.
19. State the relative importance of each.
20. Contrast the social income of the whole nation with its social wealth.
21. May the social income of the nation be increased without increasing the well-being of the nation as a whole?
22. May the social income of a nation be increased without increasing the amount of social wealth?

Problems.

1. Are the following social or private wealth, both or neither? a church; a farm; a rare postage stamp; a lake view from the campus; a stone quarry near the South Pole; a ten thousand dollar diamond at the bottom of the deepest part of the Atlantic Ocean; Lake Michigan; a mortgage on a farm; the sun. Give reasons for your opinion in each case.
2. Suppose that the U. S. government should freely place at the disposal of the people, machines for getting great quantities of electricity from the water used in the household, thus obviating the need of electric power houses and causing their abandonment and the discharge of the men employed there. Assume that each machine cost the government \$2.00 and could be operated without cost; would the new machines benefit or injure the American people?
3. Are the following private or social capital, both or neither? A dray; an excursion steamer; an air gun in the hand of a boy; a student's text-book; a piano used in a dancing academy; a theatre; a church; Madame Melba's diamonds; a fraternity pin; a U. S. bond; a shoe factory. Explain why in each case.
4. Is it possible to double the amount of private property without doubling the social wealth of a nation? How? Is it possible to double the amount of social wealth with-

out increasing the amount of the private property of a nation? How?

5. If the whole human race were entirely fed with manna freely placed at the disposal of every human being by Providence, what would be the resulting changes in the kind and quantity of social wealth in the U. S.? How would it affect the total social income of the people of the United States?
6. If any one could sink a well and find oil in his back yard as easily as he can now find water, and if drinking water should become relatively as scarce as oil at present is, would the amount of social wealth; real income be increased or decreased in the United States? Explain why.
7. Discuss the effect of the European war upon the increase or decrease of social wealth or social capital; private property; public property in France.
8. Explain five ways in which private property rights may be created without really increasing the amount of social wealth of a nation.

CHAPTER VIII.

CONSUMPTION.

Definitions.

- I. **CONSUMPTION** (Final Consumption) means the use of goods in the direct satisfaction of human wants.
- II. **HARMFUL CONSUMPTION** means that use of goods in the direct satisfaction of human wants which directly or indirectly gives rise to a social problem.
- III. **DESTRUCTIVE CONSUMPTION** is that form of consumption in which the satisfaction derived is trivial compared with what could ordinarily be obtained by other uses of the goods.
- IV. **THE INITIAL UTILITY OF CONSUMPTION** is the utility of the first unit of the goods consumed.
- V. **THE FINAL UTILITY OF CONSUMPTION** is the utility of that unit of the goods last consumed.
- VI. **THE MARGINAL UTILITY** of goods in a stock may be viewed either from the standpoint of the **prospective purchaser** or of the **prospective seller**.

To the **Prospective Purchaser** the **Marginal Utility of goods in Stock** is the importance which he would attach to an additional unit of the commodity at the present moment.

To the **Prospective Seller** the **Marginal Utility of Goods in Stock** is equal to the amount of the sacrifice that he believes he would undergo through the loss of a single unit.
- VII. **LUXURY** means the consumption of goods which, according to the customary standard of living of the class concerned, are not considered essential to maximum efficiency of the individual, or of the group to which he belongs.

Quiz Questions.

1. Define and cite examples of utility; (a) initial utility; (b) final utility; (c) total utility.
2. What is meant by the final consumption of goods? Do men produce in order to consume or do they consume in order to produce? Do men consume chairs? Oil paintings? Air?
3. Is the burning of coal in a factory engine consumption?
4. A laborer eats nourishing food so that he may be able to endure hard work. Is this productive consumption?
5. Do men's wants tend to increase or decrease in number as they become more civilized?
6. Is the utility of a loaf of bread ordinarily greater than the utility of a diamond?
7. What is meant by the subjective value of a thing? May the subjective value of a diamond be greater to an individual than its power to satisfy his wants?
8. May the utility of a thing be greater to one person than to another? Cite an illustration.
9. Suppose a boy consumes four apples, and suppose the utility of the fourth apple is ten, would the total utility of all four apples be forty? Why.
10. What is meant by the economic order of consumption?
11. Does a hungry burglar in a bakery follow the economic order of consumption? What other order of consumption may he follow?
12. Do future wants influence the nature of a man's expenditure today? Are present or future wants relatively stronger to a man who saves?
13. Are present or future wants relatively stronger during the existing European war than in times of peace? May France or Germany as nations consume future products during the war? How?
14. If a man has ten dollars, is the utility of any one of them less than that of any of the others?
15. Is the utility of a dollar to Mr. Rockefeller as great as it is to a laborer? May it be greater?

16. Does a poor man always get more pleasure out of the expenditure of a dollar than a rich man? Does he ordinarily do so?
17. Is it possible for a nation to save too much and spend too little? For an individual? How?
18. Name the chief motives for saving. Are any of those motives disappearing?
19. What modern institutions are there that encourage saving?
20. Is coffee a luxury? Was it a luxury formerly? Are automobiles a luxury? Bicycles?
21. Does a man encourage the production of luxuries by using them? Does he discourage the production of anything else? How?
22. Does not the man who buys an automobile or a race horse put money into circulation and thus benefit the laboring class?
23. What is meant by harmful consumption?
24. Is it harmful consumption if a man takes poison in order to commit suicide? If he eats adulterated food? If he eats excessive quantities of beefsteak? If he takes morphine regularly? Why?
25. If a man's income is increased twenty per cent, is his outlay for clothes also increased twenty per cent? His outlay for rent? For sundries?
26. If a man's income is doubled will he spend twice as much for subsistence as before?
27. What is a fair living wage for a working man's family in New York? In Madison?
28. State the main propositions in what are known as Engel's laws. Which of these failed to hold true in the U. S. in 1903?

Problems.

1. Does the utility of a unit of each of the following articles diminish as the stock of each is increased? Money? Clothes? Producer's goods? Land? Cite examples and explain fully.
2. (a) A man accidentally burns a dollar bill. Is that consumption? Suppose he is selling patent medicine on a

street corner and uses it to light his cigar in order to attract attention. Is his act final consumption insofar as he is affected? (b) Suppose a servant uses his employer's books to kindle a fire in the furnace; is that normal consumption? Why? (b) Nero ordered his servant to set fire to Rome in order that he might enjoy the view. Was that normal consumption? (d) The farmers of Kansas in 1896 burned corn instead of coal, because corn was cheaper. Was that normal consumption? (e) A man who is isolated by a Dakota blizzard burns Chippendale chairs to keep from freezing to death. Is that destructive consumption?

3. Suppose a man receives an income of \$1,000,000.00 a year. Does he indulge in luxury if he spends it all on his private personal wants? Why? What principle of luxury do you apply? Is an automobile a luxury to the President of the United States? Is it to you?
4. Suppose a man with an income of \$600.00 per year spends normally \$270.00 for food; \$110.00 for rent; \$75.00 for clothes; \$35.00 for fuel and light; and \$110.00 on amusements, etc. How much would he spend on each of the above named items if his income were increased to \$1,200? (See text, p. 119.)
5. Suppose an individual estimates his present wants at 48, 38, 32, 24, 20, 12, 4, 31, 21, 14 and the present value of future wants is 44, 40, 28, 2, 7, 8, 4, 3, 2, 1. Suppose each want can be satisfied by \$10.00 and he has \$100.00 to spend, how much will he save?
6. "The human race could increase its welfare almost as much by a better ordering of its consumption as by an increased production of wealth and this without any real retrenchment in consumption." Enumerate ways in which this may be done.
7. What per cent of the family income is produced in the home? Ordinarily spent by the housewife? What economies could be reasonably practiced in the use of fuel? Food? Clothing? Living quarters (rent)? Personal services?

8. During war time what kinds of saving are increased? What kinds of waste? Does hoarding of goods usually constitute social saving? Is it the most effective method of social saving?
9. "The luxury of the great is the comfort of the little."
 "Prodigals ruin themselves, but they enrich the state."
 "It is the superfluity of the rich that makes the bread of the poor." "Tell us about Mondor. Mondor forever! He is the benefactor of the workman. It is true he revels in dissipation; he splashes the passer-by; his own dignity and that of human nature is lowered; but what of that? He causes money to circulate. Is not money made round that it may roll?" Comment critically.

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FETTER, *Prin. Econ.*, 385-91.

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DAVENPORT, *Econ. of Enterprise*, 306-310.

BLACKMAR, *Economics*, Chapter VI.

CHAPTER IX.

PRODUCTION.

Definitions.

- I. **PRODUCTION OF SOCIAL WEALTH** means the creation of utilities by the application of man's mental and physical powers to the materials of nature. Production usually results in the creation of one or more of (a) time, (b) place, (c) form, (d) possession utilities.
- II. **PRODUCTION GOODS** are goods used in the creation of utilities embodied in social wealth. They are of two kinds, natural resources and capital goods.
- III. **NATURAL RESOURCES** are those gifts of nature which directly or indirectly aid in satisfying the wants of man. Like other goods they may be used for the production of wealth or for purposes of consumption.
- IV. **CAPITAL GOODS** are those products of past industry used in the further production of social wealth. A stock or aggregation of capital goods is referred to as **Social Capital**.
- V. **LABOR** is man's effort in production and includes all bodily or mental effort, having for its primary purpose the creation of economic goods rather than the pleasure derived from the exertion itself.

Quiz Questions.

1. What is production of wealth? Give examples.
2. Give examples of the addition to goods of place utilities; time utilities; form utilities; and possession utilities.
3. Does the advertiser produce social wealth? How?
4. Is it possible to produce immaterial goods?
5. Does a banker produce wealth? Explain.
6. Is a merchant a producer? If so, in what way?

7. Name the factors of production.
8. Define and illustrate each.
9. Contrast fixed with circulating capital.
10. Is money circulating capital?
11. Is an aeroplane circulating capital?
12. Is sand in a sand pit circulating capital?
13. What is the chief function of the capitalist? The landlord?
14. Contrast social saving with individual saving.
15. What is disutility? Marginal disutility? Is initial disutility greater than marginal disutility? Contrast disutility with the business man's conception of cost.
16. What is abstinence? Contrast disutility with abstinence?
17. Contrast cost of production with expense of production.
18. What functions does the entrepreneur perform?
19. Is a man who owns and runs a shoe-shining parlor an entrepreneur?
20. What do you understand by division of labor?
21. Enumerate (a) advantages and (b) disadvantages of division of labor.
22. Explain what is meant by a **territorial division of labor**.

Problems.

1. (a) Is the work of the newsboy production of social wealth? In what way? (b) Is the work of a teacher economic production? (c) Is the effort of a varsity foot-ball player economic production? (d) Suppose he enjoys the game, but is given his board for playing on the team, would it then be economic production?
2. (a) Is it possible for a man to be engaged in production without helping to create social wealth? (b) How? (c) Is the waiter in a restaurant a producer? (d) If so, what does he produce? (e) What does the lumber dealer produce? (f) What does a barber produce?
3. A merchant is never really a producer since he either sells goods for more than they are worth or buys them for less than they are worth and thereby makes a profit. Draw a diagram showing the relative utility of a pair of gloves

and a dollar bill to the merchant and to the buyer and show how both may gain by the exchange.

4. (a) Suppose a man saves one hundred dollars per year and hides away five twenty dollar bills annually in a crock in the pantry until he accumulates a hoard of \$2,000.00. Is that social saving? (b) Suppose a man saves a hundred dollars and puts it into improvements on his farm, better barns, better machines, etc. Is that social saving? Why? (c) Suppose a prairie farmer saves nothing at all but each year makes two trees grow where but one grew before. Is that social saving?
5. (a) An Indian makes a canoe by burning out a hollow log. What factors are combined in the making of a factory made canoe?
6. (a) In Bulgaria one often sees a woman and a dog pulling a cart. Is the effort of the woman labor? Is the effort of the dog? Why? (b) A certain college student known in college circles as a "fusser" was hired to entertain the young women guests at a fashionable summer resort. Is his labor effort? Why? (c) Suppose an owner of an automobile spends his days in driving his machine whenever his caprice dictates. Is his effort labor? Why? (d) Suppose he hires a chauffeur to run the machine over the same stretch. Is the effort of the chauffeur labor? Why?
7. The savings of the United States are estimated at \$2,000,000 per day. In what form are these savings found and where are they?
8. The Socialists say "The Laborer is after all the only real producer, all the rest are parasites and live off the product of his labor." What concept of labor does this imply? What concept of production?

CHAPTER X.

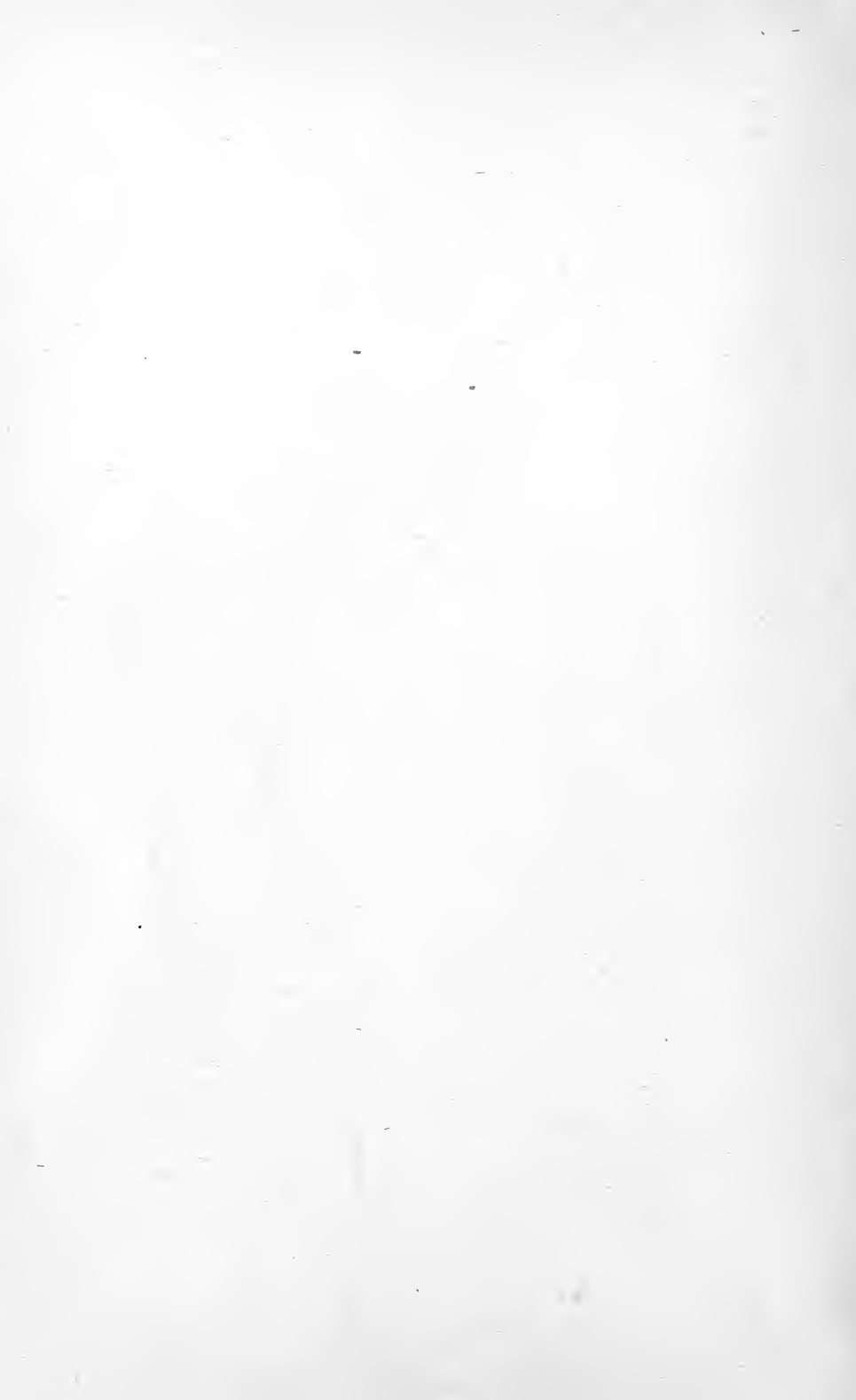
CORPORATIONS.

Definitions.

- V. **A CORPORATION** is an artificial person with limited liability for debt created by law for some purpose.
- II. **THE ENTREPRENEUR** means the person or group of persons who direct and assume the risks of a business.
- III. **THE CAPITAL VALUE OF A CORPORATION** means the aggregate market value of its stocks and bonds at a given time.
- IV. **CAPITALIZATION** means the aggregate face value of its stocks.
- V. **PHYSICAL VALUE** is the aggregate value of all the concrete material assets of a business.
- VI. **OVERCAPITALIZATION** exists where the total face value of all the stocks and bonds of a corporation are in excess of the physical value of the plant.
- VII. **WATERED STOCK** consists of the excess of the par value of stocks actually issued over the total amount invested by the stockholders.

Quiz Questions.

1. Name the most important types of business units.
2. What is the most important characteristic of a corporation?
3. Enumerate the weaknesses of partnership.
4. Name the chief elements of a corporation charter.
5. Who grants the corporation charter?
6. Why has New Jersey become the home of so many corporations?
7. What effect has the rule of interstate-comity had upon the actions of corporations in various states?



8. What is meant by the paid up capital stock of a corporation?
9. What is cumulative preferred stock?
10. What is the difference between bonds and stocks?
11. What is the income from bonds called?
12. What is the income from stocks called?
13. What is watered stock?
14. How may stock be used to distribute surplus profits?
15. Why should the capital stock of railroads correspond to the real investment?
16. What objections are there to over-capitalization from the standpoint of the investor?
17. What are the officials who manage a corporation called?
18. What are the chief advantages of a corporation as a form of business organization from the point of view of the business man? Why is individual ownership less desirable?
19. How may a corporation be managed so as to be injurious to society?
20. Is a corporation always a trust? Contrast a trust certificate with a stock certificate.
21. What is a trust? How is it governed? How owned?
22. What is a holding company?
23. Why has the holding company lent itself to monopoly formation in the past?
24. Name the chief motives that have led to corporate combinations.
25. What was the purpose of the Sherman Anti-trust Act?
26. Has it been successful?
27. Is publicity a complete solution of the problem?
28. What three kinds of publicity are there that may be required?
29. What kinds are most desirable?
30. What would be the effect of a law requiring a federal license from all corporations engaged in inter-state commerce?

Problems.

1. Suppose the company whose balance sheet is given on page 137* would buy (a) \$2,000.00 worth of new machinery, paying in cash; (b) declare a dividend amounting to \$4,000.00 of its outstanding indebtedness. How would its balance sheet then read?
2. (a) Suppose A has property worth \$100,000.00 and suppose he invests \$25,000.00 in a one-third interest in a partnership with B and C. After a year the partnership goes into bankruptcy with \$20,000.00 assets and \$50,000.00 liabilities. To what extent is A liable for the debts of the firm? To what extent is A liable for the firm if the other partners have as much property as he? What is the minimum amount of the deficiency which he must necessarily pay? (b) Suppose A, instead of investing in a partnership, buys ten thousand dollars' worth of stock in a corporation capitalized at \$30,000.00 and suppose the corporation fails with liabilities of \$10,000.00 in excess of assets, to what extent is A liable for the debts of the corporation?
3. Suppose a man buys a piece of land for fifty dollars and he pays one hundred and fifty dollars to some laborers for digging a hole in the ground. Should he be allowed to organize a company capitalized at one million dollars to own and operate this so-called mine? What is the difference between the capitalization and actual capital in the enterprise? Suppose a fortune teller has informed him that there is gold in his land if he digs down deep enough, would that alter the case?
4. Suppose Mr. A, owning \$50,000.00 worth of stock in a corporation capitalized at \$30,000.00, should die. What rights would his heirs have in the management of the concern? (b) Suppose he owns a one-third interest in a partnership with \$30,000.00 capital, what rights would his heirs have in the firm after his death?
5. Enumerate ten of the most powerful holding companies in the United States today.

*Ely's Outlines of Economics.

6. If interest rates are 5 per cent., and a corporation has, in hundred dollar shares, \$50,000 in common stock, \$40,000 in 6 per cent. equally participating, preferred stock, and \$30,000 in 5 per cent. bonds, and the net income is expected to average \$4,900 annually, what is the common stock worth? Preferred stock? Bonds? If the net income increases to \$5,900, what is each worth? If it falls to and remains at \$1,900, what will each be worth?

7. Construct a balance sheet, using the following items:

Income reinvested	\$70,000
Raw materials on hand	40,000
Cash on hand	15,000
Accounts receivable	10,000
Common stock	50,000
Seven per cent. preferred stock.....	50,000
Funded debt (bonds)	100,000
Land and buildings	200,000
Profits	55,000
Accounts payable	10,000
Machinery	50,000
Finished goods on hand.....	20,000

- (b) Recast the balance sheet after the following transactions have been made:

1. Sells \$15,000 worth of finished goods for cash.
2. Buys on account \$10,000 worth of raw materials.
3. Pays out in cash 5 per cent. interest on the funded debt.

8. The capital stock of a company XYZ, organized Jan. 1, 1910, is \$100,000, representing 1,000 shares of 7 per cent. cumulative preferred stock, par value \$100, and 1,000 shares of common stock, par value \$100. This company also has \$500,000 of 5 per cent. gold bonds outstanding, issued Jan. 2, 1910. On Jan. 1, 1911, the profits on the books of this company were \$30,000 and on Jan. 1, 1912, the profits were \$40,000. Make out a statement showing the amount of interest and dividends paid on each share of stock and each bond in 1911 and 1912.

9. Explain each of the "**bold**" terms in the following: The XYZ Gold Mining Co., organized on Jan. 1, 1912, has

sold 100,000 shares of **common stock**, par value one dollar, and has paid for its mining claims by transferring 100,000 shares of its 6 per cent. **cumulative preferred stock**, par value one dollar each. In order to carry on its development work it has, on June 1, 1913, floated 500 6 per cent. **gold bonds** of \$1,000 each. On July 1, 1913, the directors **passed the semi-annual dividend**, but announced that they expected to have \$60,000 on hand as **undivided profits** on June 1, 1914.

10. Assuming that interest on the bonds in the above company has been paid on Jan. 1, 1913, but that none of the other security holders has received anything since the organization of the company, how can an undivided surplus of \$80,000 be divided on Jan. 1, 1914? What part will go to the owners of the preferred stock, what share will go to the owners of the common stock, and how much to the bond holders?

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BULLOCK, *Introd. to Econ.*, 150-57.

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JENKS, *The Trust Problem*, Chap. 7.

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CHAPTER XI.

VALUE.

Definitions.

- ✓ I. **USE VALUE** is the importance attached by an individual to a unit of a commodity for the direct satisfaction of his wants, and is measured by its marginal utility.
- ✓ II. **SUBJECTIVE EXCHANGE VALUE** is the importance ascribed by an individual to a commodity or a service for purposes of exchange and is measured the minimum he will accept for a unit or the maximum he will offer for an additional unit of a good.
- ✓ III. **SUBJECTIVE VALUE** is based upon both use value and subjective exchange value and means the entire importance of a unit of a commodity or a service.
- ✓ IV. **EXCHANGE OR MARKET VALUE** of a commodity or service, is not expressed in money but means the quantity of other goods that can be obtained for it.
- V. **PRICE** is exchange value expressed in terms of money.
- VI. **MARKET** is the area within which the price determining forces for a unit of a commodity operate.
- VII. **MARKET SUPPLY** is the amount of goods offered for sale on a given market at a given time and price.
- VIII. **DEMAND** means the amount of goods purchasers are ready to buy in a given market at a given time and price.
- IX. **NORMAL VALUE** of a good at a given time means value fixed by the trend of market values over a long time period.
- X. **DEMAND** is said to be **elastic** when a small change in price results in a large change in the quantity of goods bought.



XI. DEMAND IS INELASTIC when a large change in price has but little effect on the quantity of goods purchased.

XII. POTENTIAL SUPPLY is the quantity of goods which in a given period of time would be brought to market should the prices go up.

Quiz Questions.

1. What is meant by (a) **EXCHANGE VALUE** of a good? (b) The **SUBJECTIVE VALUE** of a thing? (c) **SUBJECTIVE EXCHANGE** value?
2. How can one measure the value of a dollar? Does it have exchange value? Subjective value?
3. What kind of value is spoken of when a man says: "This is worth more to me than I can sell it for?" State the technical economic name for this kind of value.
4. Contrast **EXCHANGE VALUE** with **PRICE**.
5. Name three ways by which **MARKET PRICE** may be established.
6. Which method prevails today?
7. What is a **MARKET**?
8. Name some goods for which there is a **world market**.
Local market.
9. What are some of the institutions essential to the existence of free **COMPETITION**?
10. Define economic goods. Are free goods objects of demand and supply? Is there a market for free goods?
11. Why is it an inadequate explanation to say that **SUPPLY** and **DEMAND** determine values? What is supply? What is demand?
12. Contrast **DESIRE** for a thing with **EFFECTIVE DEMAND** for it.
13. May advertising sometimes change desire into effective demand? How? Enumerate other ways of changing desire into effective demand.
14. Why does lowering the price of articles in a sale tend to increase the **effective demand** for them?

15. Suppose the price of wheat goes up in the Chicago markets, what effect is it likely to have on the **PRICE** of corn? The price of rye?
16. If the price of apples increases what effect will it have on the demand for apples? Will it have any appreciable effect on the desire for apples?
17. Explain what is meant by **ELASTICITY** of **DEMAND**. Draw curves illustrating elastic and inelastic demand.
18. For what kind of goods is demand least elastic? Why?
19. What effect does the existence of substitutes have upon the elasticity of the demand for a commodity? What effect does a person's **MARGIN OF CONSUMPTION** have on his demand for an article?
20. What effect does improvement in the general well-being of a people have upon the **ELASTICITY OF DEMAND** for goods?
21. Of what does the **CONSUMER'S SURPLUS** consist? Money? Goods? Satisfaction?
22. Is it possible that there may be a **CONSUMER'S DEFICIT**? How?
23. What is the meaning of **POTENTIAL SUPPLY**?
24. Through what agencies does **SUPPLY** and **DEMAND** determine prices?
25. What is meant by the **PRODUCER'S** or **SELLER'S SURPLUS**?
26. What is **competition**? Contrast **RIVALRY** in sports with **COMPETITION**.
27. What is meant by **FREEDOM OF CONTRACT**? Can there be **COMPETITION** without **FREEDOM OF CONTRACT**?

Problems.

1. (a) The demand for violins is as follows: one if the price is \$5,000; two if the price is \$4,800; three at \$4,500; five at \$3,000; seven at \$2,800; nine at \$2,000; eleven at \$1,000. The supply, i. e., the number for sale, is as follows: one at \$1,000, if no more can be obtained; two at \$2,000; three at \$2,800; four at \$3,800; five at \$6,000. Plot the demand and supply curves and establish the



price. (b) Suppose only four such violins are in existence, all in the hands of one owner, and suppose the owner will sell at the best price he can get, what will the price be?

2. ✓ (a) If supply and demand for a commodity increased at the same rate, what effect would it have upon the value?

✓ (b) "After all, it is the great law of supply and demand that finally determines what an article is worth." Criticise statement. (c) If the number of persons demanding a commodity should double, would prices double? Why? Explain.

3. (a) Suppose the number of foot ball tickets offered for sale in Madison for a Thanksgiving game is 30,000. Suppose there are 30,000 people in Madison. Each person wants a ticket and has \$5.00 in his pocket. What will be the value of the ticket? Can you estimate approximately what the price will be? Why? Apply the same reasoning to the value of air. (b) Name four products whose supply is relatively fixed and for which the demand varies. (c) Name four products whose supply is relatively variable, and for which the demand varies. (d) Name four products whose supply varies greatly from time to time, for which the demand is relatively staple. (e) Plot a demand curve for foot ball tickets (30,000) as you think it is.

4. As a result of an explosion in a mine a miner and his donkey are imprisoned in a coal mine. The man has two dinner pails full of food, each of which is sufficient to keep either the man or the donkey alive for five days. Suppose the man knows it will take five days and no longer for the rescuing party to sink a new shaft to him, how much would he value one of the pails of food? (b) Crusoe stranded on his island has five sacks of corn. One sack is sufficient to maintain his life until the next harvest, one sack is needed for seed, the third sack is needed for an emergency, in case of failure of harvest; the fourth sack he uses to feed his poultry and the fifth

sack to feed his parrot. What is the value of a sack of corn to Crusoe?

5. Will a ten per cent. increase in the supply of wheat have greater or less effect on the price of wheat than a ten per cent. increase in supply of silks has on the price of silk hats? Why? Of diamonds?
6. If two commodities have the same price, ten cents, does that imply that a buyer's initial utility obtained from consuming one unit of each is the same? Why? Does it mean that the total utility derived from consuming a series of units, say ten of each, would be the same? Why? Does it necessarily mean that the marginal utility of each is the same to a person purchasing ten units of each commodity? Why?
7. Discuss the supply and demand schedule for gasoline. Is the price necessarily high because the supply is short, or because the demand has increased?

CHAPTER XII.

VALUE AND PRICE.

Quiz Questions.

1. Why do men engage in business? What determines the **supply** of any commodity?
2. What is the **normal value** towards which prices constantly gravitate? Are **prices** and **normal values** of a series of commodities ever identical?
3. May prices ever go below this level? Cite an illustration. May they go above?
4. Suppose the price of an article remains for some time above its normal value, what happens?
5. Is all the wheat in the United States produced at the same expense per bushel?
6. Is the price of wheat more largely determined by the expense of producing wheat on the best land on which it pays to raise wheat, or by the expense on the poorest land on which wheat is raised?
7. Name some industries where the expense of production per unit decreases with the increase of the output. Name some goods that are subject to increasing costs. Name some goods subject to decreasing costs.
8. In what classes of goods is the **surplus** of **bargaining** greatest? Is the surplus of bargaining greatest in competitive or non-competitive enterprises?
9. What determines the normal price of non-reproducible goods? Cite an example.
10. Why do retail prices not always respond to fluctuations in wholesale prices? Do they in the long run? Do they respond more promptly upwards or downwards?
11. Name some commodities the values of which are largely determined by **public authority**.
12. Is the number of goods the values of which are fixed by **public authority**, increasing or decreasing?

13. What is meant by **imputed value**? What examples are there of imputed values?
14. A productive good like a plow satisfies directly no human want. In what way can it be said that the marginal utility determines its value?
15. What is the **socialistic theory** of value? Who is considered the father of **scientific socialism**?
16. What is meant by marginal expense?
17. Cite examples of goods having joint costs.
18. Does a Persian rug have a great value because it takes much labor to make it or is the labor valuable because the rug will sell for so much money? Is the price of wheat high because it takes expensive wheat land to grow it or does the wheat have greater value because the wheat price is high?
19. Formulate a principle explaining the value of a producer's good.
20. Is it possible for a thing to be scarce and still not have any value?

Problems.

1. In what way does price influence the supply of wheat in thirty days? In two years? (b) In what way does price affect the supply of manufactured articles in thirty days? In three years? (c) In what way does potential supply affect the price on a given day? Cite illustration. (d) Will an increase in potential supply affect price directly or through an increase in visible supply?
2. Suppose as a result of a discovery in agriculture the supply of wheat could be increased ten per cent next year, what effect would it have upon the price? Would it be doubled or halved? Would it have some other result? Suppose the supply should be increased by one-third or one-fourth of this year's crop, would it have a proportionate effect on the prices, i. e., would there be $33\frac{1}{3}$ per cent. or 25 per cent. increase or decrease in price? Why?

3. A Madison man pays five dollars per cwt. for five hundred pounds of sugar for the use of his family house during the year. If the sugar supply were suddenly cut off this same man might have been willing to pay fifty dollars per cwt. for one hundred pounds of sugar. The consumer's surplus of this man is then the difference between \$50 and \$5 or \$45, and this multiplied by five, the number of cwt. bought, yields \$225, the total surplus. Criticise.
4. Two clam fishers each find a pearl in the Yahara. The two pearls are exactly alike in size and quality. They advertise that both pearls are for sale on a certain day, and five jewelers appear. Jeweler A makes up his mind that the value of either of the pearls is \$75.00; Jeweler B, \$50.00; Jeweler C, \$35.00; Jeweler D, \$25.00; and E, \$20.00. Both pearls will be sold at the best prices obtainable and each jeweler is ready to buy both pearls at the best prices named. At what price will the pearls probably be sold? (b) Suppose a swindler advertises that fifty pine tree shillings have been discovered in a cellar in Maine. Suppose the imitations are so perfect that the greatest critics believe them to be genuine. Suppose the market price of a real pine tree shilling is \$150.00 or more, what are the newly discovered counterfeits worth? What effect will the "discovery" have on the old **genuine pine tree shillings**?
5. A boy has caught twenty one-pound bass. He would, if he had an opportunity, exchange all of them for a bicycle; ten for a dog; five for roller skates; two for a fish line; two for a rabbit; six for two pounds of candy; three for a flash light; seven for a gun. The market prices are: dog, 50 cents; rabbits, 75 cents each; fish line, 75 cents; gun, \$1.00; flash light, 75 cents; candy, 50 cents per pound; roller skates, \$1.50 per pair; fish, 25 cents per pound. What will he buy and sell and how much will he save?
6. In a certain market there is one horse for sale that meets all the requirements of five buyers. Buyer "1" has de-

cided in his mind that \$350.00 is the maximum amount he can afford to pay for such a horse. Buyer "2," \$200.00; buyer "3," \$250.00; buyer "4," \$200.00; buyer "5," \$150.00, and buyer "6," \$100.00. At what price will the horse probably sell? (a) Suppose there are three horses on the above market, what will be the market price? Explain. (b) Suppose the owner of one of the horses will sell at as much over \$200.00 as he can get, seller "2" will sell at as much over \$250.00 as he can get and seller "3" will sell at as much over \$300.00 as he can get; what will be the market price and how many horses will change hands?

7. The city of Chicago can use the following quantities of eggs at the indicated prices: 10,000 crates at 50 cents per dozen; 25,000 crates at 40 cents per dozen; 50,000 at 30 cents; 75,000 at 25 cents; 100,000 at 20 cents; 125,000 at 18 cents; 150,000 at 17 cents; 200,000 at 15 cents; 250,000 at 13 cents; 300,000 at 10 cents. The shipments of eggs (10,000 crate lots) into Chicago for each month is as follows: Jan. 10—25; March, 40; April, 200; May, 130; June, 100; July, 75; Aug., 50; September, 40; October, 30; November, 20; and December, 15. (a) Plot the supply curve and the price curve for the year. (b) If 20,000 cases each month are bought for storage in April, May and June and sold in December, January and February, what effect will it have on the price curve under the above assumption?

CHAPTER XIII.

MONOPOLY.

Definitions.

I. **MONOPOLY** means that substantial unity of action on the part of one or more persons engaged in some kind of business which gives exclusive control, more particularly, although not solely, with respect to price.

II. **A TRUST** (in popular usage) is an industrial combination other than a legal or natural monopoly, which attempts partially or wholly to eliminate competition in any of its fields of action. A trust may be created by means of "gentlemen agreements," community of interest secured by interholding of stock or interlocking of directorates, contractual agreements e. g., pools, division of territory, voting trusts etc., by holding companies, or by actual integration of general business through purchase and consolidation.

III. CONTROL.

1. **Federal.** The Interstate Commerce Act, dated Feb. 4, 1887, an act for the regulation of commerce,— followed by the bill of March 2, 1889, and the bill of Feb. 10, 1891, Feb. 8, 1895, June 29, 1906.

The Sherman Anti-trust Act begins with the bill of 1889.

Art. 1. Makes it applicable to arrangements, contracts, agreements, trusts or combinations between persons or corporations with a view to prevent free competition in importation, transportation, or sale of articles imported into the U. S., or in the production of, or sale of, domestic raw material transported from one state or territory to another, and all arrangements, contracts, agreements, trusts or combinations designed to advance the cost to the consumer of any such articles.

Sec. 2. Any person or corporation injured may sue for and recover the full sum paid by him for any goods, wares included in or advanced in price by a combination.

Sec. 3. Penalty for violation not more than \$10,000, or imprisonment of not more than 5 years, or both.

The bill provides in section 2 for a civil remedy; in section 3, for a criminal remedy for violations.

Analysis of section 1: 1. It applies to attempts to prevent or **diminish** competition in importation, transportation or sale of the imported articles.

2. In the manufacture or production or sale of articles at home which compete with imported articles.

3. Or articles which are transported from one state or territory into another.

4. All combinations designed to advance cost to the consumer of any articles mentioned.

Constitutional foundation for Sherman Act found in paragraph 3, section 8, art. 1 of the constitution: Congress has power to regulate commerce with foreign nations and among the several states and with the Indian tribes.

Sec. 1. Did not propose to regulate any transaction except what might result from combinations between a plurality of persons or corporations.

Sec. 2. Proposed to enable any person injured by a forbidden transaction to recover the amount paid.

This original bill was referred to the Finance Committee and reported back Feb. 27, 1890. The Finance Committee substitute attempted to strengthen the constitutional basis for the bill.

IV. THE NEW ANTI-TRUST LAW.

An act to supplement existing laws against unlawful restraints and monopolies and for other purposes.

Sec. 1. Enumerates former anti-trust laws, defines "commerce" so as to include all interstate commerce except commerce with the Philippine Islands and defines "persons" so as to include corporations and

associations as well as natural persons.

Sec. 2. Forbids discriminations in price between different purchasers where the effect is to tend to create a monopoly, provided the discrimination is not made in good faith to meet competition.

Sec. 3. Forbids leases and conditional sales, where the lessee or purchaser binds himself not to buy or deal in goods of competitors and where the effect of such lease or sale is to tend to create a monopoly.

Sec. 4. Gives a person injured by anyone acting in violation of the anti-trust laws, the right to sue in any U. S. district court regardless of the amount in controversy and to recover costs and three-fold damages.

Sec. 5. Establishes that final judgment or decree in a suit in equity brought by the United States against a defendant in an anti-trust case shall be conclusive evidence as to the same facts and questions of law in favor of any other party bringing action under the anti-trust law.

Sec. 6. Exempts labor organizations and agricultural or horticultural associations from the jurisdiction of the anti-trust laws, provided they are lawfully carrying out their legitimate objects.

Sec. 7. Forbids corporations directly or indirectly to acquire or hold stocks in one or more corporations where the effect is to lessen competition between corporations whose stock is acquired or to restrain commerce in any section or community.

Sec. 8. Forbids interlocking directorates between two or more banks either of which has deposits, capital, surplus and undivided profits aggregating more than five million dollars or between other corporations any one of which has a capital, surplus and undivided profits of one million dollars. This provision takes effect two years after the date of approval of the act.

Sec. 9. Forbids and provides penalties for embezzlement or misapplication of funds or credits of common carriers by officers or directors of firm or corporation.

Sec. 10. Attempts to prevent manipulation by directors

or officers through construction or repair companies by forbidding dealings by common carriers in securities or articles of commerce and by providing for competitive bidding on all supplies and construction work, placing the control over such bidding in the hands of the Inter-State Commerce Commission.

Sec. 11. Gives the Inter-State Commerce Commission power to enforce compliance with sections 2, 3, 7 and 8, gives the Federal Reserve Board power to enforce the laws applicable to banks and trust companies, and the Federal Trade Commission power to enforce laws applicable to unfair trade practices.

Secs. 12, 13, 14 and 15. Provide penalties for violation of penal provisions and prescribe the judicial procedure and machinery for the enforcement of the laws.

Secs. 16, 17, 18, 19 and 20. Regulate the use of injunctions in trust cases—restricting the use of injunctions by United States courts in cases between employers and employes, and expressly forbidding the use of the injunction in case of lawful strikes, boycotts or picketing.

Secs. 21, 22, 23 and 24. Provide penalties for contempt and for appeals and legal procedure in contempt cases.

Sec. 26. Provides that, if any part of the act is declared invalid by competent courts, it shall not impair the validity of the remainder of the act.

V. THE NEW TRADE COMMISSION LAW.

Definition of unfair trade.

“That unfair methods of competition in (interstate) commerce are hereby declared unlawful.”

The remainder of the law is devoted to details of organization, procedure, methods by which rulings may be appealed to courts and penalties to be imposed on those guilty of “unfair competition.”

The Commission is composed of seven commissioners appointed by the president and, in addition to its



duties provided in the law, it takes over the powers and clerical forces of the Bureau of Corporations and of the Commissioner of corporations, both of which are by this act abolished.

Quiz Questions.

1. Do **Supply** and **Demand** help to establish price in case of a monopoly? Explain fully. Contrast with competition.
2. Define **Competition**. Define **Monopoly**. Contrast competitive with monopolistic condition.
3. Are all monopolies trusts? Are all trusts monopolies?
4. Is land ownership monopoly? Why? Contrast the modern idea of monopoly with the old English legal concept.
5. Contrast **public** with **private** monopolies.
6. Give some illustrations of **quasi-public monopolies**.
7. What is meant by social monopolies?
8. Cite illustrations of **social monopolies** based on public favoritism.
9. Explain and illustrate **natural monopolies**.
10. What principle underlies the classification. (a) local, (b) national, (c) international monopolies?
11. What is the best classification of monopolies? Upon what principles is it based? Classify monopolies according to causes of monopoly power.
12. Is a monopoly price necessarily a **high price**?
13. What is meant by the point of highest net return?
14. Can the Standard Oil Company charge any price it pleases for oil? Why?
15. Will the monopoly price for an article be higher in this country than in Japan? Why? State principles involved.
16. What is a **class price**? In what kinds of commodities do you find class prices? May there be a class price in a competitive industry? How does it differ from **Monopoly Class Price**?
17. May prices be raised in any other way than by limitation of the supply?

18. What limits supply under competition in the case of a freely reproducible good? In case of goods produced at increasing costs?
19. What limits would there be to supply if the cost of production were zero?
20. Contrast **fixed** with **variable** expenses of production.
21. State the law of monopoly price.
22. What effect has monopoly on the formation of large fortunes? On small wages?
23. What schemes for the control of natural monopolies have been suggested?
24. Contrast large scale business with monopoly.
25. Are monopolies bad because they make the poor poorer or the rich richer? Are they bad where they make the rich richer and make the poor poorer? Are monopolies based on efficiency bad?
26. Enumerate the different kinds of problems involved in the so-called problem of **Trusts**.

Problems.

1. A certain manufacturing monopoly can sell each year:

2,000,000 machines at	-----	\$1,000
400,000 “	-----	2,500
300,000 “	-----	5,000
200,000 “	-----	6,000
100,000 “	-----	8,000
70,000 “	-----	10,000
50,000 “	-----	12,000
10,000 “	-----	25,000

Each machine costs on an average:

\$8,000 if it manufactures but 10,000 machines per annum.

7,000	“	“	50,000	“	“
6,000	“	“	70,000	“	“
4,000	“	“	100,000	“	“
3,500	“	“	200,000	“	“
3,000	“	“	300,000	“	“
2,000	“	“	400,000	“	“
1,000	“	“	2,000,000	“	“

(a) At what price will the monopoly manufacture and sell its machines? (b) What will be the price if the government levies a tax of \$2,000 per machine? (c) If the government levies a fixed tax of \$20,000 per annum on the monopoly?

2. An interurban street car company finds upon investigation that it can carry:

15 million passengers at 3c. per ticket at a cost of $2\frac{1}{2}$ c. each.
13 million passengers at 4c. per ticket at a cost of 3c. each.
12 million passengers at 5c. per ticket at a cost of $3\frac{1}{2}$ c. each.
10 million passengers at 6c. per ticket at a cost of 4c. each.
 $8\frac{1}{2}$ million passengers at 7c. per ticket at a cost of 5c. each.
6 million passengers at 8c. per ticket at a cost of 6c. each.
4 million passengers at 9c. per ticket at a cost of 7c. each.
2 million passengers at 10c. per ticket at a cost of 8c. each.

(a) What price will it establish? (b) suppose the state charges a tax of one cent per ticket for every ticket sold, how will such tax affect the company? How much income will the state get? Will the company raise the price of the tickets? Explain.

3. "Every owner of a railroad, of a patent, of a book or of monopolized property of any kind finds that he makes more money by putting prices down to the figures that are reasonable, that is, to the figures that correspond to the values to the buyers of the things sold, than by keeping them beyond those figures." (a) Explain the fallacy in this statement. (b) Name an article sold at a higher price than its value to the buyer. What is meant by "value to the buyer?" (c) Name some force other than government regulation or public opinion that causes a monopoly to lower its prices. Explain how it works out.
4. "It is absurd to claim that a public utility, i. e., a gas company or a street car company, has power to rob the public. Such a company can charge no more than the public is willing to pay. If the people think the price is too high they will not pay it and the company will reduce the rates to a fair price." Discuss the fallacies contained in the above under the following heads: (a)

Can a gas company get only as much as the public is willing to pay? (b) What is meant by the public? Explain the change in the meaning of "the public" as the price is reduced. (c) What is a fair price for a street car ride? If the price is raised to 10c., is this a fair price for those who see fit to make use of street cars?

5. "By mutual agreement Madison liverymen have made an advance in the charge for certain vehicles. The price of carriages for funerals has been raised from \$1 to \$5; for balls and evening parties from \$3 to \$4."—*Madison Democrat*, Nov. 27, 1910. Does the above agreement indicate a trust or a monopolistic combination in the Madison livery business, or are the prices of carriages still governed by "the law of supply and demand?" If there exists a combination, can the Sherman Anti-Trust act be used to break it up? Why? Why have not prices for all carriages of all kinds been raised? Is this a class price? Explain fully.
6. (a) When, where and why do space, light and air have exchange value? Do they affect the value of commodities? (b) Do honesty, truth and character have exchange value? Why? (c) Does friendship ever have exchange value? Utility?
7. The Dutch East India Company used to destroy a large part of the spice bearing plants in India each year in order to increase its own profits. Was its reasoning fallacious? (a) How does the Standard Oil, Whiskey Trust, or Tobacco Trust obtain the same results?
8. How did the burley tobacco growers in Kentucky hope to affect the price of their products? See magazine literature on the "night riders."
9. In a certain market there is the following demand and supply:
 Buyer A will purchase only one unit if he has to pay 32 or more.
 " " two units if he has to pay 23 or less.
 " " three units if he has to pay 8 or less.
 Buyer B will purchase only one unit if he has to pay 28 or more.





“ “ two units if he can get them for 22.

“ “ three units if he can get them for 17.

Buyer C will purchase only one unit if he has to pay 24 or more.

“ “ two units if he can get them for 19 each.

“ “ three units if he can get them for 10 each

Buyer D will purchase only one unit if he has to pay 10 or more.

“ “ two units if he can get them for 16 each.

“ “ three units if he can get them for 11 each

Seller M will sell only one unit if he can get 14 for it.

“ “ two units if he can get 19 for them.

“ “ three units if he can get 22 for each.

Seller N will sell only one unit if he can get 11 for it.

“ “ two units if he can get 13 for it.

“ “ three units if he can get 20 for each.

Seller O will sell only one unit at 10.

“ “ two units if he can 16 each for them.

“ “ three units if he can get 18 each for them.

Seller P will sell only one unit at 12.

“ “ two units at 13.

“ “ three units at 16.

(a) Suppose one seller owns the entire output, four units, and is forced to sell all regardless of price, what will be the price if A, B, C, D, are the only buyers, and their wants are indicated above?

(b) What will be the price if he has eight units and if he is forced to sell?

(c) What will be the price if each seller has three units and his estimates are as indicated above? Plot the supply and demand curve in each case.

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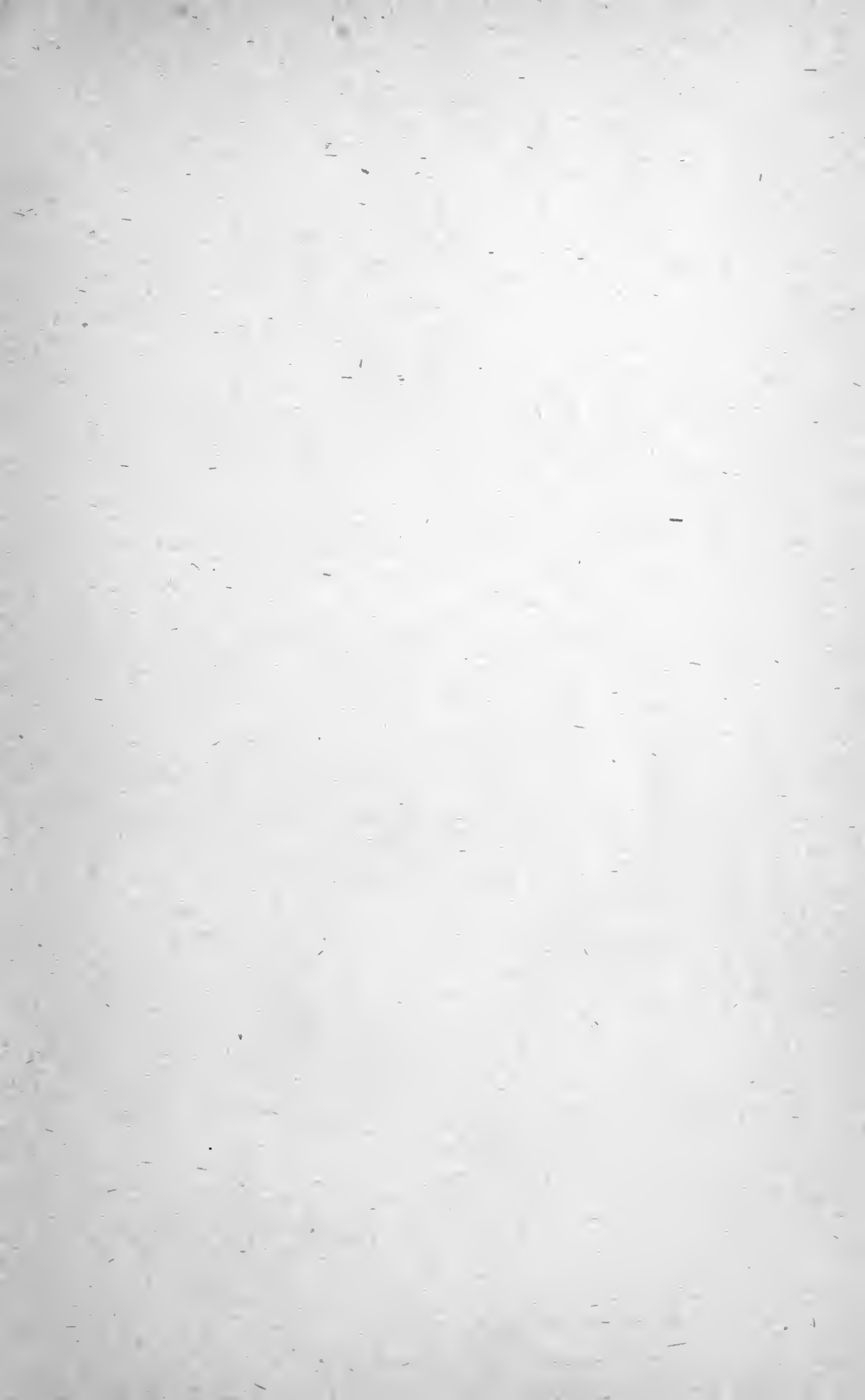
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CHAPTER XIV.

MONEY.

Definitions.

- I. **MONEY** is any standardized instrument of general acceptability that passes freely from hand to hand (i. e., without endorsement) in exchange for goods or property.
- II. **THE MONEY STANDARD** means the unit of value in terms of which the value of all other kinds of money is expressed.
- III. **SUBSIDIARY OR TOKEN** money is money which is coined by the government for use as change in the smaller business transactions.
- IV. **LEGAL TENDER MONEY** is any money which a creditor is by law compelled to receive in discharge of a debt.
- V. **COINAGE** is the manufacture of metallic money, and means the official governmental certification of the weight and fineness of a piece of metal used for money purposes.
- VI. **SEIGNIORAGE** means a charge for coining bullion into money, sufficient in amount to yield a profit to the state.
- VII. **BRASSAGE** means a charge for coinage which is not in excess of the expenses of coinage.
- VIII. **FREE OR GRATUITOUS COINAGE** exists when no coinage charge is made.
- IX. **UNLIMITED COINAGE** exists when any person may take any quantity of bullion to the mint and have it coined into money by paying the usual seigniorage or brassage.



X. **FIAT MONEY** is irredeemable money, usually inconvertible paper money.

Quiz Questions.

1. What is a dollar? Is its **value** measured in cents?
2. What is meant by **standard money**? What is the world unit of value?
3. What is the meaning of the word **money** in the expression, "Mr. Jones is a monied man?"
4. Is a money order **money**? A bank note? A check?
5. What commodities were used as money in American colonial days? What commodities are used today?
6. What **qualities** of gold and silver have made them particularly fitted for money?
7. What is meant by "**coining**" money?
8. What is the purpose of coining money?
9. What is **seigniorage**?
10. What is meant by debasement of currency?
11. Can the government **create** value by the use of a stamp on a piece of metal? Why?
12. Does the United States charge any **seigniorage** on its coins? Can a country charge seigniorage without hampering its international trade? Why? Does the United States charge either seigniorage or brassage?
13. Contrast **brassage** with seigniorage.
14. What are the primary functions of money? The secondary functions?
15. Why does a gold dollar whose bullion value is 100 and a silver dollar whose bullion value is 53, and a paper dollar where the paper is worth 1, exchange for the same amount of value?
16. Name the kinds of money that are **standard** in the United States today. What **qualities** must a good standard money possess?
17. What is meant by **free coinage** of metal?
18. Do we have a **limited coinage** of any metals today? If so, what ones?
19. If the silver dollar is worth only 53 cents and it exchanges for one dollar, who makes the profit?

20. Do we have **bimetallism** in the United States today?
21. (a) What advantages are claimed for bimetallism over monometallism? (b) What advantages are claimed for monometallism over bimetallism?
22. State **Gresham's Law**. What bearing does it have on bimetallism?
23. What does a coinage ratio of "**sixteen to one**" mean? Value? Weight? Number?
24. Has bimetallism with the free coinage of silver, ever been tried in the U. S.? If so, when?
25. Why has bimetallism ceased to be a political issue in recent years?
26. When did Congress abandon the free coinage of silver?
27. What do you understand by the **demonetization** of silver?
28. Contrast the **market ratio** with the "**coinage ratio**."
29. What was the effect of the Bland-Allison Act and the Sherman Act upon the use of silver?
30. Why were they called compromises?
31. What led to the repeal of the Sherman Act?
32. What was the main issue in the campaign of 1896?
33. What is the "**Jingle fallacy**?" What is meant by the redemption of money?
34. When were **greenbacks** first issued? Contrast a greenback with a national bank book; with a promissory note.
35. Should the greenbacks now in circulation be retired? Why?
36. What effect did the use of greenbacks have on the cost of the war?
37. What money is redeemable at present and in what is each kind redeemable?

Problems.

1. Mr. Jones came to the New York **money market** to obtain **money** for his manufacturing establishment. He found the supply of **standard money** very limited and the **bank reserves** very low and therefore had to turn to the **monied** men in New York to secure **credit**. He finally succeeded in obtaining \$100,000 in **currency**, which he **deposited** with the New York **correspondent** of his home bank which amount was afterwards transferred by **bank**





- draft** to his firm's account at home. Explain the meaning of each of the black type terms.
2. Should an up-to-date government charge brassage? Seigniorage?
 3. Is the debasement of any kind of currency justifiable under modern conditions?
 4. What should be done with the silver bullion deposited in the treasury to secure silver certificates?
 5. Contrast the Sherman Anti-Trust Act with the Sherman Silver Purchase Act.
 6. Are there any good reasons for discontinuing the use of greenbacks as currency?

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CHAPTER XV.

CREDIT.

Definitions.

- I. **CREDIT** is the ability to secure goods or property at the present time in exchange for a promise to pay money or goods in the future.
- II. **CREDIT INVESTMENTS** are contracts containing unconditional promises to pay money or goods on demand, or at a definite time in the future.
- III. **A BANK** is an institution authorized by the government to deal in money and credits.
- IV. **A BANK RESERVE** is the cash on hand to meet possible demands.
- V. **THE LAWFUL RESERVE** is the amount of cash, not counting bank notes, which a bank is required by law to keep on hand to meet its current obligations.
- VI. **A BANK DEPOSIT** is a bank's promise to pay money to an individual or to a group of individuals. Legally it is a right action against a bank for money.
- VII. **A CHECK** is an order directing a bank to pay money to the bearer or to a person, or to a group of persons named.
- VIII. **A BANK DRAFT** is an order issued by one bank to another to pay money to the party or parties named.

The Federal Reserve Act.

The act provides: first, for the creation of a Federal Reserve Board—a national body with broad powers to regulate banks and banking activities carried on under federal jurisdiction.

Second, the act provides for the creation of twelve Federal Reserve Banks endowed with limited general banking powers

and in addition with exclusive rights to act as federal depositories, to issue bank notes and to serve as clearing houses for the banks of the district.

Third, the act provides for the transformation of national and state banks into **member banks** with reserve requirements slightly more favorable than those of the National Bank Act; and finally provides for the gradual refunding of the United States 2 per cent bonds and the transference of the circulation privileges from the **member banks** to the **Federal Reserve Banks**.

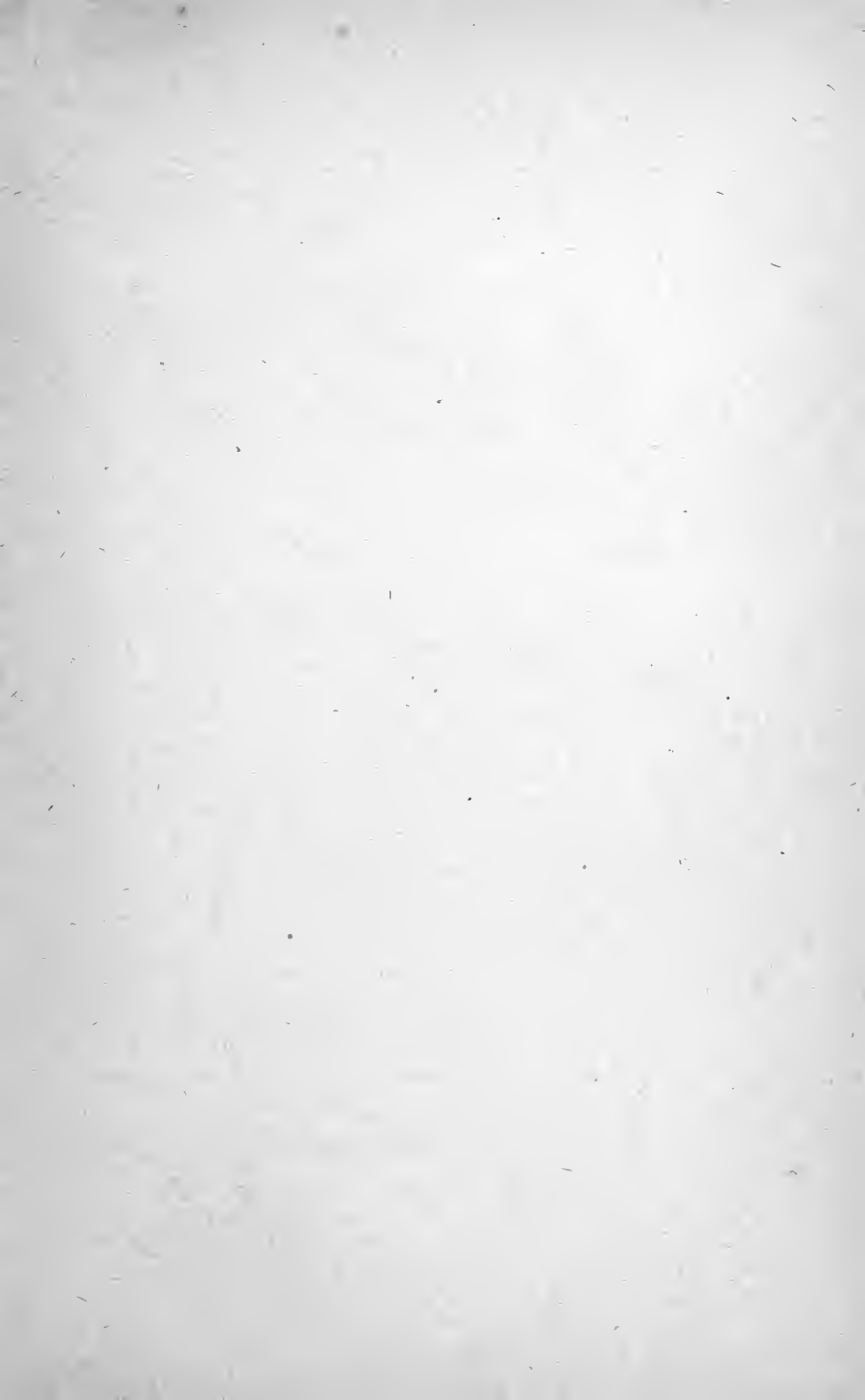
I. THE FEDERAL RESERVE BOARD.

1. Composition: The Secretary of the Treasury, the Comptroller of the Currency and five members to be appointed by the President of the United States with the consent of the Senate.

2. Chief Powers:

- (a) To examine and control Federal Reserve Banks and Member Banks.
- (b) To control the note issues so as to expand or contract the currency as the needs of the country seem to require.
- (c) To fix the discount rate for Federal Reserve Banks and specify the character of bills eligible for discount and to fix the rate of interest to be charged by Federal Reserve Banks on Federal reserve notes issued.
- (d) To raise or lower the reserve requirement for stated intervals.
- (e) To exercise the functions of a clearing house and indirectly to expand or contract credit.
- (f) To appoint three of the nine directors of each Federal Reserve Bank and to discipline any Federal Reserve Bank violating the law.

3. The Federal Advisory Council is composed of one member chosen by each Federal Reserve Bank to act in advisory capacity with the Federal Reserve Board.





II. THE FEDERAL RESERVE BANKS — BANKERS FOR BANKS. Twelve such banks provided for, one in each Federal Reserve District.

1. **Management:** Each bank controlled by nine directors, three of whom shall be bankers and shall be selected by the member banks of the District; three shall be business men (not bankers) elected by the member banks; and three shall be appointed by the Federal Reserve Board.
2. **Capital Stock:** Not less than \$4,000,000 divided into one hundred dollar shares. to be subscribed by the member banks, by the general public, and by the United States Treasury.
3. **Earnings:**
 - (a) Six per cent cumulative dividend paid on all stock.
 - (b) Of the remainder, one-half goes into surplus until it equals forty per cent of the paid up capital stock; after this all earnings go into the United States Treasury as a franchise tax.
4. **Reserves:** Each Federal Reserve Bank must maintain gold or lawful money reserves equal to 35% of its deposits in addition to a 40% gold reserve against all outstanding notes.
5. **Powers and duties:**
 - (a) Must receive at par checks and drafts drawn on it by any of its depositors. Depositors include the United States government, the member banks of the district and other Reserve Banks.
 - (b) May discount short term commercial paper endorsed by member banks.
 - (c) May deal in gold coin or bullion, buy and sell United States bonds and notes, and without bank endorsement, bills of exchange, cable transfers, and bankers' acceptances.
 - (d) May establish branch banks or agencies in foreign countries.

- (e) May receive government deposits.
- (f) May issue **Federal reserve** notes in denominations of \$5, \$10, \$15, \$20, \$50 and \$100, secured by equal amounts of rediscounted commercial paper and by first lien, equally with notes secured by United States bonds—on all the assets of the issuing bank.
- (g) To redeem notes, banks must keep 40% gold reserves, of which five per cent must be in the United States Treasury.
- (h) Should reserve fall below 40% limit, then a progressive tax, gauged by the amount of the deficiency, is levied by the Reserve Board on the Reserve Banks, to be obtained by increasing the rate of discount, which increase must be approved by the Board.
- (i) No Federal Reserve Bank is permitted, subject to a penalty of 10% of the face value of the notes, to pay out notes of any other bank—but said notes must be forwarded to issuing bank for credit or redemption.

III. MEMBER BANKS.

1. **Organization:** Every National Bank must become a **Member Bank** within thirty days after notification, and state banks may join at any time by conforming to the National Bank Act, and subscribing to Federal Reserve Bank stock of the district, same equal to 6% of their capital and surplus. Failure of National Banks to qualify within six months works forfeiture of their charter.
2. **Privileges:** Main privilege is the right to submit its commercial paper to the Federal Reserve Bank for rediscount, thus emancipating the bank from its present condition of dependence upon the central or corresponding banks.
 - (a) Member Banks having capital and surplus of over one million may establish foreign branch banks.
 - (b) May receive time deposits and pay interest on them.
 - (c) When outside of Central Reserve Cities, banks may loan money on farm lands for periods not to exceed





five years, total of which shall not exceed over 50% of capital and surplus or one-third of time deposits.

- (d) Exemption from National Bank Act requirement of depositing United States bonds with the treasurer.
- (e) May accept short time drafts and bills of exchange for exports or imports.

3. Duties and Restrictions:

- (a) Reserves. In reserve computation, demand deposits mean those payable in 30 days. Time Deposits payable after 30 days.
 - 1. Central Reserve City Banks.
18% of demand and 5% of time deposits of which 6/18 must be in own vault, 7/18 in Federal Reserve Banks and 5/18 in either own vault or Reserve Bank.
 - 2. Reserve City Banks.
15% of demand and 5% of time deposits of which 5/15 must be in own vaults, 6/15 in Reserve Bank and 4/15 in either own vaults or Reserve Bank.
 - 3. Country Banks.
12% of demand and 5% of time deposits of which 4/12 must be in own vaults, 5/12 in Federal Reserve Bank and 3/12 in either own vaults or Federal Reserve Bank.
- (b) May not keep more than 10% capital and surplus with a non-member bank, except where state laws require it.

Quiz Questions.

- 1. What is meant by making a **deposit** at a bank?
- 2. May a deposit be created without bringing any actual money to the bank? How?
- 3. What are the **functions** of a bank? Do all banks exercise all of them?
- 4. Is there really less money in the country when the money market is said to be tight? Explain. Is there less money in the banks or greater demand for credit?

5. What is a **bank note**? Contrast with a green back. With a silver certificate. With a treasury note. With a promissory note. Are any or all of these **legal tender**? How are national bank notes kept at par with gold?
6. What **limitations** are there on the issue of bank notes by national banks?
7. What **central reserve** city is nearest to your home?
8. What is meant by "**lawful money reserve**" required of national banks? May a bank be solvent when its reserve is inadequate?
9. Why is a money reserve needed by a bank?
10. What is meant by a "**run**" on a bank? Now may it get started?
11. Should a bank keep enough reserve in its vaults to satisfy every depositor tomorrow, if they all wished to draw their money? Why?
12. What is the chief difference between a **state bank** and a **national bank**? What other kinds of banking institutions are there?
13. Why does money not needed for reserves in different parts of the United States tend to flow to New York?
14. Make out a list of different kinds of "**collaterals**" that may be used in securing bank loan?
15. What sort of a collateral is chiefly responsible for the rapid expansion of speculation in recent years?
16. What is a **call loan**? Who can secure a call loan? Under what conditions may banks safely extend their call loans?
17. How high may the **interest rates** on call loans go?
18. Is there any **regularity** in the movement of money? Does it flow in any definite channels, or in any definite direction?
19. In what direction is the flow of money in the early fall?
20. Where is most of the money moving to at this time?
21. How may this produce a **tight money market** in New York?
22. Can exceptional influx or outflow of money to or from New York be foretold with any certainty?
23. Is there a uniform unit of value throughout the United States?
24. Is there any particular season when large amounts of money flow into Europe?



25. Why are our bank notes considered **inelastic currency**?
26. Is there any **elastic element** in our currency at present? Explain.
27. How has the currency been made more elastic during the past year?
28. What law makes this arrangement possible?

Problems.

1. The nickel in a five cent piece is worth about one cent. The silver in four quarters or ten dimes is worth about thirty-six cents, "cents" being hundredths of a gold dollar. M and N and O each buy a Sunday paper. M gives a silver dollar, the bullion of which is worth forty-two cents, and receives three quarters and two dimes in return. N gives a gold dollar the bullion of which is worth 100 cents and receives three quarters and two dimes in return, and O pays a nickel five cent piece for his paper. What value in gold does each pay for his paper?
2. A state bank organized under the laws of Wisconsin has accounts as indicated.

ASSETS.		LIABILITIES.	
Loans and discounts	\$420,000	Capital	----- \$100,000
Bonds and stocks	25,000	Surplus	----- 30,000
Real estate	25,000	Undivided profits	----- 20,000
Other assets	25,000	Deposits	----- 420,000
Cash	75,000		
	<hr/>		<hr/>
	\$570,000		\$570,000

- (a) This bank adds to its securities \$24,000 by discounting three months paper at 6 per cent, $\frac{4}{5}$ being paid for by increasing its demand liabilities and $\frac{1}{5}$ by cash. How would the account then stand?
- (b) The bank diminishes the discounts by \$100,000 of which $\frac{1}{4}$ is paid in cash and $\frac{3}{4}$ by surrender of demands for deposit to the same amount. The bank also increases the reserve by sale of \$10,000.00 worth of bonds at a premium of 5 per cent. How would the account then stand?

3. Enumerate and discuss all the different kinds of credit involved in banking transactions.
4. If you hold a bank note issued by bank X, and if bank X fails, with liabilities three times as great as its assets, would your bank note be worth anything? Would a ten dollar deposit be worth anything? Why?
5. Contrast a bank with a sub-treasury, a bank with a trust company, a state bank with a national bank, with special reference to reserves, bank notes, and safety of deposit.

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CHAPTER XVI.

CREDIT AND BANKING.

Definitions.

- I. **A FINANCIAL CRISIS** is usually a short period of general loss and partial paralysis of credit in the business world, ordinarily accompanied by a period of sudden decline in prices.
- II. **AN INDUSTRIAL CRISIS** is the longer period of small profits and business stagnation that may, or may not, follow the financial crisis.
- III. **AN INDEX NUMBER** is a statistical device for measuring the changes in the general level of prices.
- IV. **AN IDEAL STANDARD OF DEFERRED PAYMENTS** is one that prevents changes in the relations between debtor and creditor which would normally be brought about by alterations in the price level.
- V. **A GOOD STANDARD** of deferred payment is one that has stability of value over long periods of time.
- VI. **A TABULAR STANDARD OF VALUE** is a unit of value established by means of a carefully compiled index number of prices, based on a large number of representative commodities, which unit would determine the amount of money a creditor may legally demand in payment of an obligation. If the price level increase ten per cent in a year a creditor would be entitled to \$110.00 in payment of a hundred dollar note running the same length of time.

Quiz Questions.

- 1. What is a crisis?
- 2. Upon what two **variable elements** does the amount of bank credit depend? Explain the variable element in each.

3. Do wages or prices increase most rapidly in a period of business expansion?
4. What effect does this fact have on crises
5. Are crises less frequent now than formerly?
6. Are they less severe than formerly?
7. What effect is **integration** of industry supposed to have upon the frequency of crises?
8. If the dollar decreases in value what effect will it have on prices?
9. What effect does a gradually depreciating standard have upon business?
10. Name some conditions that may occasion a panic.
11. What is meant by **inflated capital values**?
12. Do we have inflated capital values?
13. May a country or town have inflated *land values*? How?
14. Is it possible to have a commercial panic without any very serious disturbance of manufacturing or land values? How?
15. Is it possible to increase the prosperity of a country by artificially increasing the amount of money in circulation?
16. Is there any difference between **business prosperity** and **public welfare**?
17. Are large railway and industrial dividends a sure sign of national prosperity?
18. With what kinds of transactions is the standard of deferred payments most concerned?
19. Why is there a greater tendency to demand a **depreciating standard** in primitive communities than in sections that have reached a more advanced industrial stage?
20. What is meant by the **tabular standard** of value?
21. What role would a system of **index numbers** play in such a standard?
22. Is there any way to prove that the value of money has changed during the past century? How?
23. What measures the **value of money**?
24. What is the chief difference between price fluctuations caused by inventions and changes in the cost of production and those due to changes in the value of money?





25. Is the value of **gold** changing at present? If so, is it increasing or decreasing in value?
26. What **use of gold** is it that determines value? Its use in the arts or its use in money? or both? Explain.
27. Does the **cost** of mining and refining gold have anything to do with its **value**?
28. Why is it that more people do not go into gold mining?
29. Does an increase in the supply of gold necessarily decrease its marginal utility?

Problems.

1. If the output of gold should increase so that the quantity of gold on hand should exactly equal the quantity of copper, would its value be greater or less than that of copper?
Why?
2. If you alone knew that every piece of money should, by magic, be doubled in a night, which would you buy today, \$10,000 worth of bonds or \$10,000 worth of stocks? Why?
3. Are salaried men more benefited by a gradually depreciating standard or by a gradually appreciating standard? (Assuming that their sole income is in the form of salaries.)
4. Suppose a man borrows \$5,000 for two years at 5 per cent, and suppose the monetary unit depreciates 10 per cent per annum. Would the creditor or debtor gain by the transaction? How much?
5. If the total quantity of gold in the markets of the world should treble in thirty years, what effect would it have on the well-being of the stockbroker as compared with the well-being of the salaried official? What effect on the well-being of the creditor class as compared with the debtor class?
6. Is a man really richer than he was, who obtains money in any other way than by gift, gambling or theft?
7. If the prices in 1903 are: Broadcloth \$1.00, soap 5c, coal \$10.00, wheat \$1.00, eggs 20c and salt 2c, while in 1914 the prices are: broadcloth \$1.25, soap 6c, coal \$10, wheat \$1.25, eggs 24c and salt 1c,—construct an index number showing how prices have changed.
8. Suppose a banker begins with \$100,000 paid-up capital and suppose \$20,000 in cash deposits are made by the public,

how will the bank statement read? Now suppose the banker lends \$50,000 by discounting 60-day notes at 6 per cent, how will the statement now read? Suppose further that some of the depositors draw out \$25,000 in cash, how will that affect the bank statement? Suppose finally that the banker lends \$30,000 for ninety days at 6 per cent, and after the discount has been deducted the borrowers draw out one-half of the balance in cash, crediting the balance. How will the bank statement read?

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CHAPTER XVII.

EXCHANGE.

Definitions.

- I. **A BILL OF EXCHANGE** is a written order usually issued by a creditor to a debtor, directing him to pay a sum of money either at sight or at a specified time. A *foreign bill of exchange* calls for the payment of a sum of money in a foreign country in the currency of that country.
- II. **CABLES** mean transfers of credits to foreign countries by means of a cable message, usually taking place within an hour or two. (They are usually about twenty points higher in price than demand sterling.)
- III. **DEMAND STERLING** means a draft payable upon presentation at the bank upon which it is drawn. (Usually about two cents per pound sterling higher than a ninety day draft.)
- IV. **A FINANCE BILL** is an individual order upon a foreign bank directing it to pay money at some future date, with the expectation of meeting the draft when it matures by sending either demand sterling or cable.
- V. **GOLD POINTS** are the limits within which under normal conditions sterling exchange may fluctuate.
- VI. **GERMAN EXCHANGE QUOTATION** means the price of four marks in terms of American money delivered in Germany.
- VII. **FRENCH EXCHANGE QUOTATION** means the price of one dollar in terms of francs delivered in France.
- VIII. **STERLING** means the quotation of sight drafts in English money, pounds sterling.

Quiz Questions.

1. Is an importer a producer? If so, what kind of goods does he produce?
2. What is the law of **comparative costs**? Apply the law to the case of a merchant who hires a man to take care of his furnace; a physician who hires a clerk to take care of his accounts.
3. Why does the law of comparative costs not settle the tariff controversy? Does the law of comparative costs operate between different sections of the same country?
4. What trade restrictions can be justified even when the law of comparative costs seems to show the advantage of free trade?
5. What were the main principles advocated by the **mercantilists**? What effect did they have upon internal trade?
6. Explain what is meant by **laissez faire reaction** against mercantilism? What great industrial change took place during the mercantile period?
7. What countries have absolute free trade today? What countries have a high tariff.
8. Is it generally a sign of prosperity in a country if its exports are greater than its imports?
9. Contrast **balance of trade** with **balance of accounts**. What items are included in the last but not in the first? May a country have a favorable balance of trade and an unfavorable balance of accounts? Think of conditions of the United States during the European war.
10. Does a continually favorable balance of trade necessarily lead to imports of gold and silver?
11. Does an unfavorable balance of trade generally connote lack of prosperity in a country?
12. What **unit of value** forms the basis of foreign exchange?
13. What is a **bill of exchange**? Contrast it with a **bank draft**.
14. What determines the upper and lower limit between which prices of exchange fluctuate? What are their units called?
15. Is London exchange **dear** when it is quoted at \$4.88?
16. Is the price of London exchange at par when it is at \$4.85?
17. Is the price of Paris exchange high when it is at 5.16?
18. Is the price of Berlin exchange high when it is .94?



19. What are the chief factors that govern the distribution of the gold supply of the world?
20. When the Bank of England raises its **discount rate** what effect does it have on the inflow or outflow of gold from England? How does it bring this about?
21. Does gold necessarily flow into a country when it has a favorable balance of trade? Balance of accounts?

Problems.

1. Suppose all the nations of the world should adopt the American dollar standard, and discontinue their own currencies, would there be any "par of exchange?" Or any "rate of exchange?" Or any business for "bill brokers?" Explain fully why in each case.
2. Japan sells \$10,000 worth of porcelain to a Chicago importer. Suppose Americans sell nothing directly to Japan, but sell large quantities of goods to England, Germany and South America. How would the Chicagoan pay for his bill of goods? Explain fully.
3. If a country can produce wheat at a cost of one day's labor per bushel and steel at twenty days' labor per ton, would it be profitable for the two countries to exchange wheat or steel? If so, how? Explain fully.
4. (a) Suppose a law could be passed and enforced that no dollar which comes into Madison could be sent out of town until two years had elapsed, would the city gradually become richer? and would its people become more prosperous? Why?
(b) If Chicago banks should charge exchange on all money sent into Chicago from Madison and charge no exchange on all money sent from Chicago to Madison would the citizens of Madison be better or worse off than they are at present? Why?
(c) Substitute the United States for Madison and London for Chicago in the above and then discuss.
5. "If you buy your goods from a mail order house in Chicago, your money leaves Madison and it is possible, though not probable, that you will get the same quality of goods obtain-

able from your home merchant, whereas, if you buy your goods at home your money remains at home and some of it will ultimately get back into your own pockets." Criticise.

6. (a) Suppose it costs five dollars per thousand to ship money from San Francisco to New York and suppose ten thousand persons wish to send \$1,000 each from New York to San Francisco, and only ten persons wish to send \$1,000 each to New York. At what price would the ten persons in San Francisco probably be able to buy New York exchange?
- (b) What would be the par of exchange in the above case?
- (c) What would be "gold points"?
7. A student in the university gets a check from his father in Sioux City drawn on the First National Bank of Sioux City. The student gets the check cashed at a local bank. What becomes of the check? Trace its journey.
8. Foreign and domestic exchange, December 30, 1910, is quoted as follows:
 1. Sterling exchange 4.8754, cable transfers 4.862, Bankers' sixty days, 4.874.
 2. For Paris bankers' francs were 5.167 $\frac{7}{8}$.
 3. German bankers' marks were 94 $\frac{7}{8}$ for long and 94 $\frac{7}{8}$ less 1/32 for short.
 4. Exchange at Paris on London was 25 f 26 $\frac{1}{2}$ c.
 5. Exchange at Berlin on London was 20m 44 $\frac{1}{2}$ pf.
 6. Chicago domestic exchange 10c per \$1,000 discount. Boston par.
 7. San Francisco, 60c per \$1,000.
 8. St. Louis, 50c per \$1,000 discount.
 9. St. Paul, 85c per \$1,000 premium.
 - (a) Explain what each of the above terms mean.
 - (b) Explain in each case whether the exchange rate quoted is high or low.

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CHAPTER XVIII.

T A R I F F.

Definitions.

- I. **A PROTECTIVE TARIFF** is a tariff, the purpose of which is to tax chiefly those articles that come into competition with goods produced at home. It is merely one of several ways of regulating international trade.
- II. **A REVENUE TARIFF** is a tax on imports, levied primarily for the purpose of raising revenue for the government.
- III. **DUMPING** means selling products to the foreigner under more favorable conditions than to the buyers at home.
- IV. **RECIPROCITY** is the general term applied to a class of international trading agreements, by which special trading privileges in one country are given in return for tariff or other concessions in the other.

Quiz Questions.

1. Enumerate in order of importance the arguments for a **protective tariff**.
2. Name some of the fallacious arguments for protection.
3. Explain why a **home market** is supposed to be superior to a **foreign market**. Does this apply to all cases?
4. Explain the argument against "**dumping**."
5. Is dumping more or less prevalent than it used to be?
6. How may a protective tariff influence the selection of industries to which a country may devote itself?
7. State the true and fallacious arguments on the relation of the tariff to labor.
8. Name in order of importance the arguments for **free trade**.
9. Name some of the fallacious arguments against a protective tariff.



10. State the real arguments against protectionism.
11. What objections are there to a protective tariff as a system of taxation?
12. What effect has a protective tariff on legislation?
13. May a tariff ever help or hinder a **monopoly**? Cite examples.
14. What is the last tariff law called?
15. What kind of a measure is it? High or low tariff?
16. Are the benefits derived from foreign trade different from those derived from domestic trade? Why?

Problems.

1. "In buying the steel for the Panama Canal from Germany and England, the United States is taking the bread away from its own citizens and giving it to the foreigners. Even though the price is six dollars per ton higher in America each of the six dollars give employment to American workmen, whereas, under the other system the entire sum goes to foreign capitalists and workmen." Criticise.
2. (a) If it takes eighty days labor to produce a ton of tin plate in the United States and only sixty days labor in England, and if it costs twenty days labor to produce a ton of steel rails in the United States and eighteen in England, would it pay for the United States to export or import steel rails? Demonstrate.
(b) What would be the answer if it cost thirty days labor to produce a ton of steel rails in the United States?
3. A, by one day's labor can make nine units of flour, or two units of steel. B, by one day's labor can make two units of flour or nine units of steel. Would specialization and exchange be likely to take place? If so what? Would the situation be different if A and B represented nations instead of men?
4. A, by one day's labor can make twenty units of flour, and ten units of steel. B, by one day's labor can make 15 units of flour or five units of steel. Would specialization and exchange be likely to take place. If so what? Would the situation be different if A and B represented nations instead of men?

5. It takes five days to cross the Atlantic now, where it previously required from one to two months, and the cost of carrying a bushel of wheat from New York to Liverpool is one tenth of what it was formerly. How does this effect the protective tariff? Does a country need more protection than formerly or less? Will the demands for protection be more or less frequent than formerly?
6. Criticise the following:

“The tariff is the mother of the trusts.” Are there any trusts not mothered by the tariff?

“The tariff is the chief cause of high wages in this country.” Are there any other forces that make wages higher in the U. S. than in Europe?

“The tariff has no effect whatever on wages, since it raises prices of all goods consumed by the laborer by the same amount that his wage is increased.” Is this true? Is it partly true? Explain.
7. Contrast a tariff for revenue with a protective tariff. On what lines of goods would a tariff for revenue be levied? Is the existing tariff a tariff for revenue?
8. Mexican laborers receive only 50 cents per day and American laborers receive an average wage of \$2.00 per day. Assuming equal efficiency would America import everything from Mexico? Why? Assuming equality of labor efficiency and superiority of natural resources in Mexico, would we import everything from Mexico? Why? Would we necessarily import more from Mexico than from Canada, where the laborer receives an average of \$1.50 per day?
9. Which is best for men or society, abundance or scarcity?

“A man becomes rich in in **proportion** as he sells his product at a high price.” Applying this to each group of men in succession the **scarcity theory** is deduced. To create artificial scarcity restrictive tariffs and other means are used. But man is also a consumer. As a consumer he is rich in **proportion** as he buys at a low price. This leads to the **theory of abundance**. How do you reconcile these two items? Read Bastiat in Bullock’s Readings, page 484-494.



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CHAPTER XIX.

DISTRIBUTION AS AN ECONOMIC PROBLEM.

Definitions.

- I. **DISTRIBUTION** is that part of the science of economics which deals with the forces governing the division of the social dividend among the different classes and members of society.
- II. **DISTRIBUTION INVOLVES A STUDY** first, of the fundamental institutions and forces upon which our socio-economic order rests; second, the shares of the national dividend received by the various factors engaged in production; third, of the private income of individuals and families and of the social forces affecting their relative size.
- III. **FUNDAMENTAL INSTITUTIONS** are Private Property, Right of Inheritance, Individual Freedom, Freedom of Contract, Vested Rights, Personal Liberty.
- IV. **FUNDAMENTAL FORCES** operating in the present distribution process are, Competition, Custom, Monopoly, Public Authority (regulation) and Benevolence.
- V. **THE LAW OF DIMINISHING PRODUCTIVITY** is a statement of a tendency in agriculture and to a limited extent also in other lines of production, of returns to decrease with additional applications of labor or capital or natural resources to the enterprise. This tendency is manifest in each case only after the **point of diminishing returns** has been reached.
6. **The Rate of Return** of each factor varies inversely with size of class and directly with size of other factors. Increase in population lowers all shares but rent. Wages are lowered most.
7. It is not the **Technical Contribution** of each factor but the economic contribution that determines its share.

Quiz Questions.

1. Why does distribution engage more attention now than in the time of Adam Smith or the Mercantilists?
2. What meanings can be assigned to the term **Distribution**?
3. Explain the sense in which it is used in this chapter.
4. Enumerate the chief **existing institutions** which largely control the distribution of wealth.
5. Explain the connection of **specialization** of employment with the problem of **distribution**.
6. Compare **real** income with **money** income.
7. Enumerate the different kinds of income. How is it possible for one man to receive all these?
8. On what does a person's income depend?
9. How can distribution be regarded as **valuation** in the case of wages? In the case of land?
10. Explain the law of **diminishing productivity**.
11. What is meant by the **marginal laborer**? The marginal product of labor?
12. Explain relation of **interest** to marginal product of labor.
13. What is the **marginal increment** of capital? The marginal product of capital?
14. Explain relation of interest to marginal product of capital.
15. Is there a marginal product of land? Explain.
16. Does the law of diminishing productivity apply to all industries? *Yes.*
17. In what way may an **entrepreneur** increase his output? *By extending use of factors of production.*
18. Does the law of diminishing productivity have anything to do with the size of an undertaking? Will a business continue to expand after the point of diminishing returns has been reached?
19. How may the law apply to a three-story apartment house? Why not a five or six story apartment house?
20. What rule should guide an entrepreneur seeking maximum profits?
21. Compare influence of **marginal utility** in valuation of consumption goods with influence of **marginal productivity** in valuation of productive goods.
22. If all the factors of production increase proportionally, what is the effect on wages?

23. If capital and population increase 20 per cent and land remains stationary, what is the effect on wages? Why?
24. If population increases while the other factors of production remain constant, what is the effect on wages?

Problems.

1. A wheat farmer owning 160 acres of land and working alone can raise 1,200 bushels of wheat. He finds that, by employed help, which he hires, he can get the following results:
 - 1 man 2,000 bushels.
 - 2 men 3,100 bushels.
 - 3 men 3,900 bushels.
 - 4 men 4,300 bushels.
 - 5 men 4,500 bushels.
 - 6 men 4,700 bushels.

Wheat is worth 80 cents per bushel on the farm and he can hire a man for the season for \$240.

 - (a) How many men will he hire? 5
 - (b) With the employment of which man will diminishing productivity begin? 5
 - (c) If, by intensive cultivation, the above farmer increases his wheat crop, will the price of wheat be lowered?
 - (d) If the wages per laborer were to fall to \$200 per season, would the above farmer farm more or less intensively? Prove mathematically.
 - (e) Does intensive cultivation indicate that the common people are poor or prosperous?
 - (f) The average English farmer raises 30 bushels of wheat to the acre, the average Wisconsin farmer only 15 bushels. Would wage earners be more prosperous if, by "better" farming, the crop was increased to 30 bushels to the acre? Why?
2. A farmer without money whose credit is limited to \$1,300 wishes to increase the yield of his farm. He has his choice of investing \$200 in agricultural machinery which will increase the yield 50 bushels, or \$150 in an additional horse which will increase the yield by 60 bushels, or \$1,000

800
1900

1- 2000	800	1600	640	240	1360
2- 3100	960	2480	-	480	2000
3- 3900	1900	3120	-	720	2400
4- 4300	2300	3440	-	960	2480
5- 4500	2500	3600	-	1200	2400
6- 4700	2700	3760	-	1440	2320

in more land which will increase his yield 140 bushels, or \$250 in labor to be paid at the close of the season which will result in an increased yield of 380 bushels.

If during the season, depreciation in the value of the horse is \$10 and the machinery \$10, and if the care of each costs \$10, and if the land remains stationary in value,

- (a) In what will he invest, if wheat is worth 80 cents a bushel and the interest rate is 10 per cent?
 - (b) In what will he invest if wheat is worth \$1.00 and the interest rate is 5 per cent?
3. Imagine a composite unit consisting of food, clothing, fuel, houses and miscellaneous articles grouped in the proportion in which they are used in the family of the typical workingman. Prove mathematically in which year the average workingman is more prosperous.

1900 1910

- (a) Number of units produced (millions)----- 4,000 4,500
 Percentage going to labor----- 50 50
 Number of laborer's families (millions)--- 5 7
 Does the above indicate that an increase in the productiveness of a nation necessarily means that the wage earners are better off?

1900 1910

- (b) Number of units produced (millions)----- 3,000 4,000
 Percentage going to labor (millions)----- 40 35
 Number of laborer's families----- 3 4
 Does this indicate that if production increases as fast as population the laborers necessarily are just as well off as before?

1900 1910

- (c) Number of units produced (millions)----- 3,000 4,000
 Percentage going to labor----- 36 40
 Number of laborers' families (millions)--- 3 5

Does this indicate that if the percentage of the total produce going to labor is increased and the total product is increased, that the laboring man is then necessarily better off?

4. If by an advertising campaign, the Board of Trade secures many new factories and so greatly increases the business and population of the city, which of the following persons gain and which lose? Why?
 - (a) A man holding land for speculation.
 - (b) The day laborer.
 - (c) A successful merchant with a well established store.
 - (d) A small shop-keeper with moderate ability.
 - (e) A retired business man having his money invested in securities but permanently continuing his residence in the city and owning his own house and lot.
5. (a) Is the general rate of wages in a country determined by the value of the labor product at the margin or vice versa?
 - (b) Is the marginal productivity of labor on a given farm determined by the rate of wages or vice versa?
6. (a) If the population of the United States were to increase until it was as densely populated as Germany is now and if capital were to increase just as rapidly as population, what would be the effect upon the purchasing power or commodity income of each of the following persons?
 - (1) The owner of 320 acres of good farm land.
 - (2) The day laborer.
 - (3) The owner of 10 city lots in a thriving city.
 - (4) The school teacher.
- (b) If new machinery and new processes were discovered which would enable the same number of farm laborers in the whole country on the same land to produce twice the amount of crops of every kind now produced and if, at the same time, the population of the agricultural nation were doubled, other factors remaining unchanged, would the effect be to raise or lower
 - (1) Wages,
 - (2) Rent,
 - (3) Interest?



CHAPTER XX.

DISTRIBUTION OF WEALTH.

Definitions.

1. **PERSONAL DISTRIBUTION OF WEALTH** refers to the private wealth and incomes of individuals or groups and the more direct forces that determine their amounts.
2. **CLASSIFICATION OF INCOMES.** (Personal Distribution.)

A. Earned, (directly) i. e. through personal pro- ductive efforts.	1. Wages.	a. Salaries. b. Fees (Doctors, Lawyers, Engineers, etc.) c. Royalties. d. Wages of management. e. Wages of labor. f. Tips or gratuities.
	(indirectly) 2. Use income.	a. Rent. b. Interest.
B. Legally earned but socially unearned.	3. Conjunctural gains Gains of luck, chance, etc.	a. Unearned increment of land. b. Increase in stock values. c. Discovery of mines, etc. d. Inheritances from distant relatives or friends.
	4. Predatory gains.	a. Monopoly returns (excessive). b. Capitalized privilege income obtained through legis- lation, tariffs, political corruption, etc. c. Income from manipulation of stock market. d. Artificial land booms. e. Exploitation of labor. f. Nepotism, political sinecures, offices involving nominal work, etc.
C. Legally and really unearned.	4a. Booty.	a. Usury. b. Rack rents (illegal). c. Incomes obtained by fraud. "Get rich quick schemes." d. Adulterated foods. e. Stolen goods, etc.
D. Parasitic incomes (unearned or in- directly earned).	5. Caritative income.	a. Charity. (Public and Private). b. Supported by parents. c. Supported by children.

Tendency of law to transfer 4 into the 4a class and to confiscate by means of taxation, all socially created values.

3. **DISTRIBUTION OF CREATED VALUES AMONG** (Factors of production).

1. Income from Capital—Interest.
2. Income from Land—Rent, unearned increment.
3. Income from Labor—Wages.
4. Income from Entrepreneurial Services—Profits.

Distribution of income among people is entirely distinct from distribution among the factors of production. They would be nearly identical if each factor were provided exclusively by individuals who furnished none of the other factors.

Quiz Questions.

1. Contrast distribution among the factors of production with distribution among individuals.
2. Contrast wealth with income.
3. Is it possible to materially increase the income of the people of a country without greatly increasing the wealth of a country? How?
4. Is it possible to change the absolute well-being of a people without changing the relative well-being? How?
5. Is it possible to improve the relative well-being of a people without increasing the total amount of wealth in a country? How? Is it possible to change the relative well-being without changing the absolute well-being?
6. Is the distribution of wealth getting worse from year to year?
7. Is it possible to secure greater diffusion of wealth by means of legislation?
8. Along what lines may laws be enacted to secure this result?
9. Explain the chief classes of causes of poverty.
10. What is the average rich man's point of view with regard to poverty? Is poverty caused by maladjustment of distribution or lack of productive power by the poor?
11. Explain the graft theory of large wealth.
12. Enumerate in order of importance the most important immediate causes of primary poverty.
13. Name two classes of reform measures for curing the evils of poverty.
14. What measures for changing the methods of wealth acquisition have been proposed.
15. Is greater diffusion of wealth desirable?
16. Is equal diffusion of wealth desirable?



CHAPTER XXI.

RENT.

Definitions.

- I. **COMMERCIAL LAND RENT** is the price paid to the owner of a natural resource (land, water power, minerals) for its services during a specified time. The services of land are fertility, location and standing room.
- II. **CONTRACTUAL "RENT"** is usually a payment agreed upon in a contract for the use of land and the fixed capital attached to it. This is not really rent at all.
- III. **ECONOMIC RENT** is a surplus secured by the owner of a natural resource, after the normal rate of interest, wages and profits have been paid. It may usually be measured by the excess of its earning power over that of the poorest available natural resource of the same kind, assuming the most profitable intensity of cultivation or use.
- IV. **URBAN RENTS** are determined by the desirability of lands for standing room for business or residence purposes and not by the fertility of the soil.
- V. **THE UNEARNED INCREMENT** is the increase in the value of durable goods due to society or social forces and not primarily due to the efforts of the owner.
- VI. The amount of rent of a given piece of land, measured in money depends upon (a) price level; (b) fertility of soil; (c) location, including transportation facilities; (d) intelligence of labor in general; (e) efficiency of capital in general.

There is no inevitable tendency for rents to increase. Eras of rising rents have been followed by eras of falling rents. Periods of rising rents give the land-owning class a larger share in the national income, and periods of falling rents tend to reduce the landowners' share in distribution.

- VII. **THE SELLING PRICE** of a piece of land is determined either by (a) custom or (b) capitalized economic rent, or both.
- VIII. The forces that determine the selling price of land are first, the **legal conditions of land ownership**, such as security of tenure, freedom of purchase and sale of lands, security of mortgages, liens, etc. Second, **the amount of economic rent** of the land in question. Third, the **prevailing rate of interest** and the agricultural credit situation, and finally **social prestige of land ownership and the general trend of land values or rents anticipated for the future.**

Quiz Questions.

1. Define **rent** (a) popular meaning (b) scientific meaning.
2. Enumerate the chief **services** performed by **land**.
3. "Rent is what is paid for the original indestructible qualities of the soil." Criticise.
4. Does **climate** have anything to do with rent? If so, how?
5. What effect has cheap ocean transportation had on rents in England?
6. What effect has location on rent? Define location; location with reference to what?
7. Has the relative location of English wheat land been changed by transportation facilities? How? Has the relative location of Dakota lands been similarly changed?
8. Contrast the relative importance of quality and location in affecting the rent of land.
9. Do agricultural rents respond more or less readily than the price of wheat to competitive forces?
10. If all lands were of the same quality and equally accessible could there be any rent? Would there necessarily be any rent?
11. If all lands were of the same quality but not equally accessible, would there be any rent?
12. State the **theory of rent**. What does a theory of rent really aim to solve? Explain.
13. What is the relation between the law of **diminishing returns** and rent? Would there be any rent if the law did not apply to land?

14. Rent is a **differential** over marginal or no rent land.
 - (a) What is meant by **marginal land**?
 - (b) Under what conditions would the margin be forced up?
 - (c) Down?
 - (d) What is meant by the intensive margin?
 - (e) The extensive margin?
15. Suppose land can be used for different purposes, what **use** determines its rent, the **poorest** or **highest**?
16. Suppose a farm sells for \$10,000, for how much will it rent if the prevailing rate of interest is six per cent?
17. If the rent of a farm is \$500 per annum, and the prevailing rate of interest is five per cent, what is its value. Is 16 or 17 a proper question? Why?
18. Does the **rent** of a farm determine its **value** or does its **value** determine its **rent**?
19. Is there any **no-rent land** in the United States today? If so, where?
20. Why is the selling value of land in England expressed as "**twenty years purchase**?"
21. How would it be expressed in Louisiana where the prevailing rate of interest is eight per cent?
22. Given two communities with the same rate of interest, why is the ratio of land value to rent likely to be higher in the locality with a growing population?
23. In a densely-populated country are increasing rents a sign of progress or retrogression?
24. Do rents tend to **increase** with the **increase of population** after the point of diminishing returns has been reached?
25. What is meant by the **unearned increment**? Does the owner of rare old wine get an unearned increment? Does every farmer get an unearned increment? Why?
26. Do rents cause high prices of agricultural products or do high prices cause high rents? Does the cranberry marsh give value to the cranberries or do the cranberries give value to the cranberry marsh?
27. Do high rents cause intensive cultivation, or does intensive cultivation cause high rents, or are both the results of some other cause?
28. What are the chief causes of high rents in cities?

29. Would rents normally be higher in Madison than in Racine or Eau Claire? Why?
30. What effect has the presence of Chinese or negro residences on a certain street upon the rents in the neighborhood? Why?

Problems.

1. Given the following normal data pertaining to a wheat farm in Minnesota: Acres cultivated, 690; yield per acre, 20 bushels; selling price of wheat, \$1.00 per bushel; annual value of farmer's service, \$1,000; number of men employed, 10; number of months each laborer worked, 6; monthly wage of each laborer, \$50; value of capital goods employed, \$10,000; cash in bank for current expenses, \$2,000; annual depreciation of capital, ten per cent; interest rate, six per cent; annual expenditure for insurance and taxes, \$720.
 - (a) Determine the annual economic rent of the farm.
 - (b) If this is the normal return on the farm, at what price would you be willing to purchase it?
 - (c) How would an anticipated larger future value of the product influence the purchase price?
2. State M with an abundance of unoccupied land is using four grades for the production of wheat. With the same expenditure of labor and capital, assuming it to be the most profitable in each case, grade A yields 30 bu., grade B yields 25 bu., grade C yields 20 bu., grade D yields 15 bu. Grade D is marginal land. Wheat is selling at \$1.00 per bushel. What is the economic rent of each grade of land?
3. (a) Assuming perfect competition, demonstrate that (1) the landlord cannot exact more than the economic rent from a tenant; (2) the tenant cannot secure the use of land without paying as much as the economic rent.
 - (b) Criticise: "Among the many causes contributing to the advance in prices may be enumerated: Increased cost of production of farm products by reason of higher land values." (Extract from Senate Report on Wages and Prices of Commodities.)



4. (a) Give the two chief causes for residence rents being higher in Madison than in other cities of the same size in the state.
(b) If a city secures rapid and convenient transit facilities how will it affect rents (1) in the retail district? (2) in the inner residence sections? (3) in the suburbs?
(c) Does the fertility of Dakota lands have any effect on the rents of agricultural lands in Germany? On urban rents in France? Explain.
5. (a) A typical entrepreneur who could earn \$1,500 per year as an employee has \$30,000 to invest. If he goes into the business for which he is best fitted, the retail shoe business, he will need to lease a certain city lot upon which to erect his store. This lot has no other use which will pay better than the one for which he proposes to use it, but several others which are approximately as profitable. The next best investment of his funds would be in securities netting him five per cent per annum. By renting the lot and devoting his entire time to the business, his net receipts above insurance, taxes, and operating expenses will amount to \$5,000. About how much rent will he have to pay for the lot?
(b) How much net income above taxes, insurance, and operating expenses could a typical marginal farmer who could earn \$1,000 per year as an employee, secure, on the average, by investing \$10,000 capital in the most profitable amount of marginal land, if interest rates are eight per cent? If he finds that he needs 200 acres of marginal land to get the best results, what would be the total rent?
6. Suppose an island is discovered in the Pacific Ocean containing 92,000 acres of arable land peculiarly suitable for wheat cultivation. Suppose further that the land is, by law, divided into four classes according to fertility: Class I, containing 4,000 acres, subdivided into one hundred 40 acre farms; Class II, 8,000 acres, into one hundred 80 acre farms; Class III, 16,000 acres, divided into one hundred 160 acre farms; and Class IV, 64,000 acres, divided into one hundred 640 acre farms. Assume also that any one of these farms may be homesteaded but that no fam-

ily is allowed to own more than one farm. A Class I farm will yield, on an average, 1,000 bushels of wheat over and above the cost of machinery and subsistence for the family cultivating it. Class II will yield 600 bushels excess. Class III will yield 200 bushels excess. Class IV yields no surplus, but just enough to pay the cost of cultivation. If the price of wheat is 80c per bushel,

- a. What will be the total amount of rent if a boat load of ninety immigrant families reaches the island and engages in wheat farming?
 - b. What will be the total rents if a second boatload of ninety families arrives and also starts wheat farming?
 - c. A third?
 - d. What will it be if a fourth boatload arrives?
 - e. What effect will cheaper ocean transportation facilities have assuming that thereby the price of wheat is increased to \$1.00 per bushel?
 - f. Suppose a new continent with unlimited quantities of available Class I land is discovered, how will it affect the rents on the island?
7. Suppose a discovery is made in agriculture by which the per acre yield of wheat land is doubled all over the world (assuming the same application of labor and capital).
- (a) What effect will it have on the rents of wheat lands? Of corn lands? Of other lands?
 - (b) Suppose the discovery remains a secret of the farmers of one state, and is not known elsewhere, how will it affect (1) rents of wheat lands within that state, and (2) elsewhere?
8. Suppose (a) it is discovered that the lands around Madison are peculiarly adapted to tobacco culture, yielding on an average of \$60.00 per acre surplus over cost of cultivation, how will it affect farm rents? (b) If it is found that a certain variety of peach trees will thrive and yield a regular crop worth \$1,000 per acre over the cost of labor and capital involved, how will it affect rents?
9. Suppose the university immediately builds dormitories capable of housing 2,000 students, what effect will it have on student room rents? on house rents?



CHAPTER XXII.

THE WAGES SYSTEM AND THEORIES OF WAGES.

Definitions.

I. THE WAGE FUND THEORY. (The doctrine of low wages.)

“Universally, then we may affirm, other things remaining the same, that if the ratio which capital and population bear to one another increases, wages will rise; if the ratio which population bears to capital increases, wages will fall.” Mill, Pol. Econ. p. 44. Trades unions were said to be powerless to raise the general level of wages. They might raise the wages of one group, but always at the expense of the remaining groups of laborers.

Essentials.

- (a) Wages are paid out of and depend upon the amount of the capital.
- (b) The capital devoted to hiring laborers (the wages fund) is fixed by past actions of capitalists and cannot be increased, except for the future.
- (c) Laborers can influence their own wages only by increasing or decreasing their own numbers.
- (d) Labor unions and collective action for or by laborers are useless.

Criticism.

- (a) Wages are paid not out of capital but out of product. They are merely temporarily advanced out of capital—the product of industry has been discounted.
- (b) Capital devoted to hiring laborers is an elastic quantity, and may be greatly augmented or contracted at any time.
- (c) This capital fund may be augmented in three ways:
 - 1. Increased saving by capital owner.

2. Increased efficiency on the part of laborers.
 3. Increase in number of laborers with same efficiency.
- (d) The laborers' contribution to the wage fund may more than counterbalance the increase in population. The ratio of capital to population is not fixed, and laborers may modify either one.

The popular theory that wages depend entirely upon supply and demand for labor is based partly on the wages-fund fallacy. Capital (circulating) is supposed to represent **demand** and population the **supply** of labor. The supply of labor may be increased without increasing population and the demand for labor may be increased without increasing circulating capital.

II. RESIDUAL CLAIMANT THEORY.

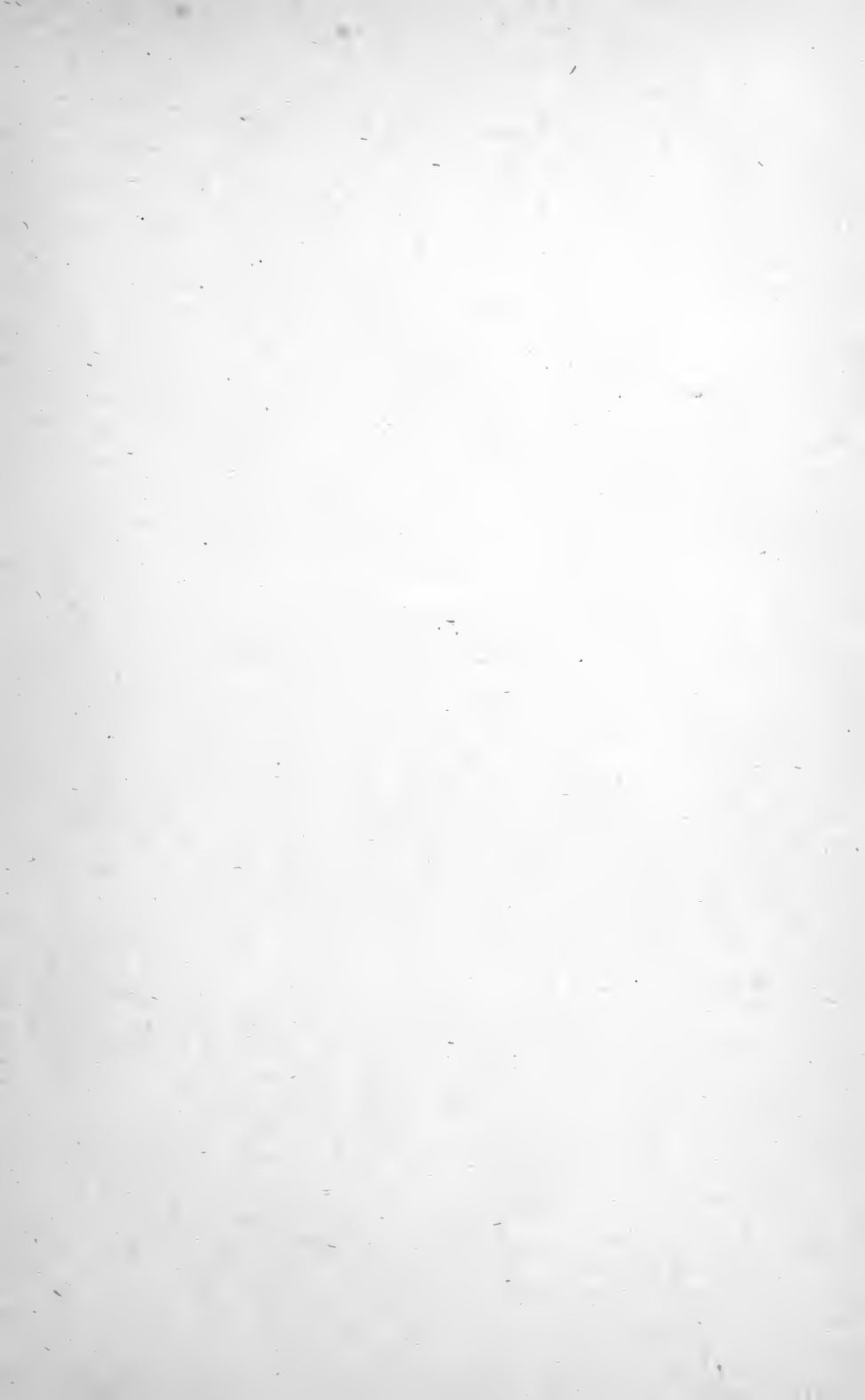
Essentials.

1. Returns of capital and land, i. e., interest profits and rent, are determined by definitely fixed laws.
2. Wages equals the entire product of industry minus the three parts above mentioned. $x \text{ Product} - (\text{rent} + \text{interest} + \text{profits}) = y \text{ Wages}$.
3. An increase in the product due to efforts of laborers, goes to them by purely natural laws, provided competition is full and free. $(x + m) \text{ Product} - (\text{rent} + \text{interest} + \text{profits}) = (y + m) \text{ Wages}$.

Criticism.

1. The share of the entrepreneur is not deducted from the product **first** but **last**.
2. The entrepreneur and the capital may sometimes by exploitation get a part of the share of the wage earner, or the laborer, by creating a monopoly, may secure most of the profits of the entrepreneur and a part of the interest on capital and of the rents of the landlord.
3. An increase in product generally tends to increase the shares of **all** factors of production.

Element of Truth. If laborers produce more, they will



in the long run get larger returns and if they decrease output, wages inevitably tend, in the long run, to be reduced.

III. SINGLE TAX THEORY OF WAGES.

Wages are fixed by the amount men could earn by working for themselves. (a) on free land; (b) on rent land.

They depend upon the margin of production or upon the produce which labor can obtain at the highest point of natural productiveness open to it without the payment of rent.

On **free land** they are fixed by the **entire** yield of the land; on **rent land** by the difference between the yield and the rent.

As the margin of no-rent land is lowered wages fall.

Criticism.

- (a) It is not true that wages in industry are fixed by what men could earn working for themselves. This theory does not conform to the facts.
- (b) Wages are often lowest where free land is most abundant. Wages rise in cities first and then in the country.
- (c) Free land had much greater influence over wages in the pioneer days than now. An exaggerated importance is ascribed to a phenomenon which was important at one stage in the history of the nation.

IV. THE IRON LAW OF WAGES.

The value of labor, as a commodity, is determined by its cost of production, i. e., by the cost of perpetuating the supply of laborers. (Socialist Theory.) See P.

V. STANDARD OF LIFE AND WAGES.

Three Theories.

- 1.
 - (a) Wages in any group are fixed by the standard of life of those laborers who have the highest scale of comfort: i. e., tend toward the cost of the most expensive portions of the necessary labor supply.

- (b) Most laborers get a margin above subsistence, i. e., above their standard of comfort.
 - (c) High standard laborers therefore are best. Laborers who own homes are inferior to those who are unable to save, and live up to the last cent.
- 2.
- (a) Wages in any group are fixed by the standard of life of those laborers who have the lowest scale of comfort, i. e., the least expensive portions of the necessary supply. (See Iron Law of Wages.)
 - (b) Only the lowest class of laborers in each group are relatively above want. The rest get less than their standard of life calls for.
3. The standard of life of the lowest class of the population is the principal long-time determinant of wages for it relatively governs the rate of increase of the population and hence the labor supply of the next generation.

Criticism.

- (a) The third theory is correct. The importance of the standard of life theory has been greatly misinterpreted in economic literature.
- (b) There is no necessary immediate relation between the standard of life and wages. It is apparent only when traced to the next generation.
- (c) A static standard has no **immediate** influence whatever. A dynamic standard, causing increased effort, efficiency and moral self-control, on the part of the laborers, may somewhat elevate the laboring population, or at least that part of the class that has this standard.

VI. MARGINAL PRODUCTIVITY THEORY OF WAGES.

- (a) The wages of any one of a group of laborers will, in general, equal the marginal product of labor; i. e., the addition to the product ascribed to any one laborer.
- (b) An increase in efficiency of labor or an improvement in methods of production tends to raise wages.
- (c) A decrease in the efficiency of labor or capital or an increase in population tends to lower wages.

- (d) High standards of living among laborers limit the supply of labor and tend to raise the marginal productivity of labor in the next generation and thus raise wages.

Criticism of Marginal Productivity Theory.

- (a) This theory assumes the existence of unrestricted competition in the labor market.
- (b) It assumes that the employer is regularly able to estimate the value of the marginal product and to discharge laborers who do not earn their wage.
- (c) It assumes that the standard of life limits the supply and that, in general, all increase due to the efficiency of labor goes to the laborer.
- (d) The theory explains, correctly, that wages tend to approximate the product of the marginal laborer.

VII. GENERAL CONSIDERATIONS.

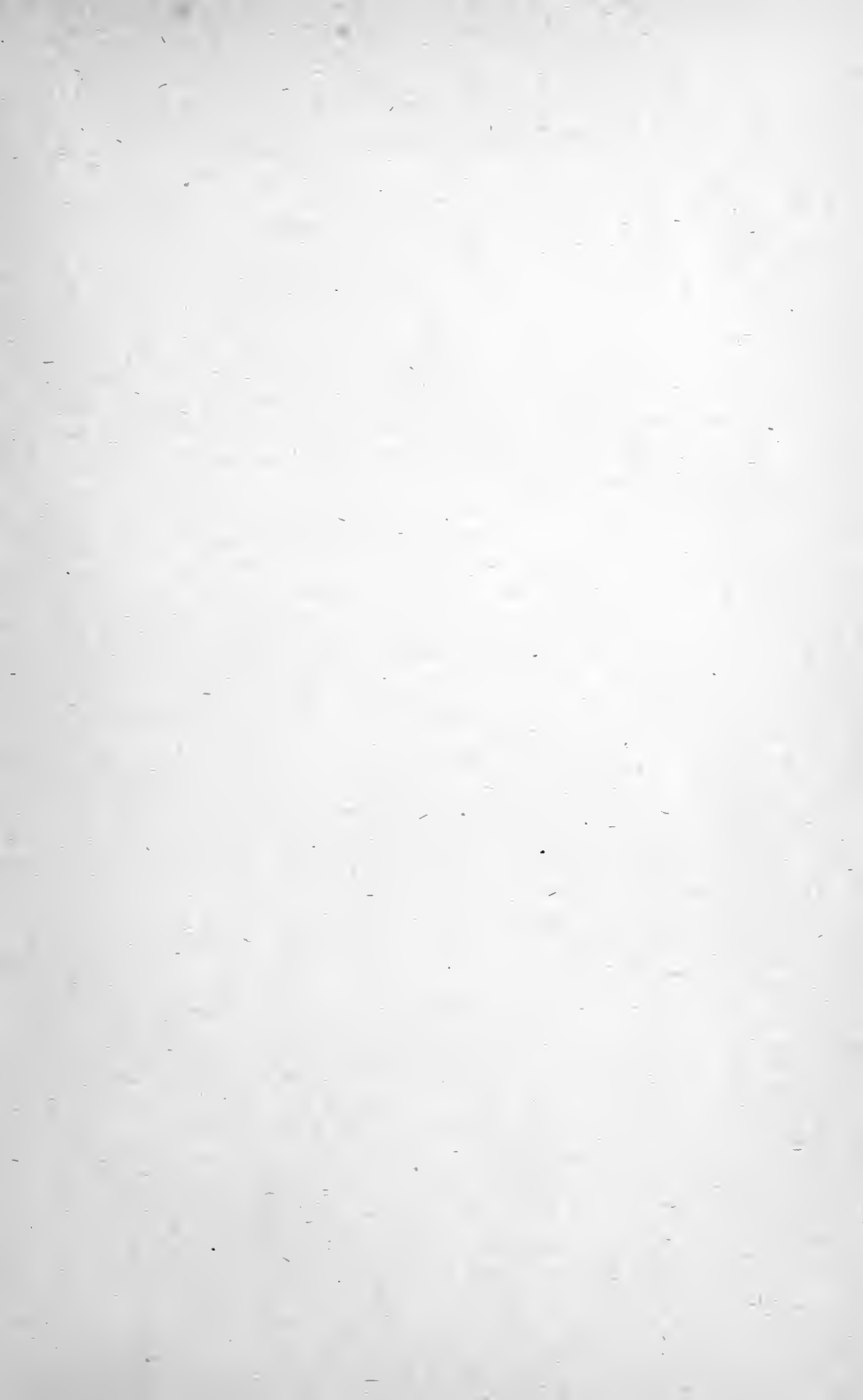
Wages in a particular industry may temporarily fluctuate between two extremes: The upper level beyond which wages cannot go is fixed by the value of the entire product and includes the returns which normally would go to the landlord, the capitalist, and the entrepreneur. The lower level may in some few cases be fixed below the subsistence minimum, but in the long run wages cannot remain below the amount of necessities and comforts which the laborers regard as essential and the reduction of which would mean a decrease in population. Between these two limits wages are fixed by bargaining. The story of the bargaining and of the forces helping or hindering the two parties in the bargain constitutes what is known as the **Labor Problem**.

VIII. WAGES may be regarded as high or low from three different points of view. First, from the standpoint of the **employer**, wages may appear to be high or low when compared with the efficiency, amount of output and value of the product resulting from the laborer's effort. Second, from the standpoint of the **laborer**, wages may be high or low when compared with his fatigue, sacrifice,

loss of leisure, etc. Third, from the standpoint of the **social reformer**, wages may be regarded as high or low when compared with the needs of the laborer. From the last point of view increasing wages are socially desirable. Poverty and misery on the part of great masses of people are the greatest hindrances to progress. The limitation upon each of these interpretations of the labor movement should be clearly recognized. **In general an economic civilization is best promoted by increasing returns to labor and increased purchasing (consumer's) power in the lower classes.**

Quiz Questions.

1. Define wages. Enumerate the essential characteristics of the wage system. Contrast the wage system with the system of remuneration that prevailed during the feudal period.
2. What kinds of services are included under the head "labor?"
3. Is this the same as the use of the term in the phrase "laboring class?"
4. Explain what is meant by the "labor problem."
5. Is the price of labor governed by the same laws as the prices of other commodities?
6. Is it socially desirable to increase or decrease the total effective demand for labor? The total amount of goods produced by labor?
7. In what ways may the demand for labor be increased?
8. Do machines always increase the demand for labor? Always decrease it? How? What effect will public trade-schools have on the wages of artisans? On the wages of unskilled laborers? What limits the number of sparrows? Do the same influences affect the supply of labor?
9. What is meant by the supply of labor? Compare the potential supply with the actual supply of labor. What is meant by the demand for labor? Is it demand for services of laborers or for the products of the laborers' efforts?



10. Is general supply or the supply in each group the important force in determining the wages of the group?
11. Is labor a perishable commodity? How?
12. Is labor more easily or less easily marketed than wheat? Why?
13. "The **structure** of population is a variable thing." Explain. How does it affect the supply of labor?
14. In Belgium women work in the mines and fields beside the men. Is the supply of labor greater there than in a country where they do not do so?
15. Is the supply of labor always proportional to population?
16. In comparing the supply of labor in two countries, what else must be considered besides the number of persons industrially employed?
17. Explain the Malthusian theory of population.
18. Is the Malthusian theory of population a good example of an economic law?
19. Is it a true theory?
20. Explain the **subsistence** theory of wages.
21. What is meant by the **standard of life**? The standard of life theory of wages?
22. Why is the last theory called a corollary of the Malthusian law of population? What is the relation between the two?
23. Does a high standard of life have any immediate influence on wages?
24. Name some of the non-competing groups among the workers of a country.
25. How is the supply of labor in each group determined?
26. What are the chief causes for differences of wages in these groups?
27. Why is the laborer at a disadvantage in the labor contract?
28. Name the two limits within which the bargain in the labor contract may fix the rate of wages.

Problems.

1. (a) The burning of Science Hall and the State Capitol was beneficial to the laborers of the state, since it increased the demand for labor. Explain fully the fallacies contained in this statement.

- (b) The Black Death was, in the long run, an advantage to the laborers of England, since it carried away one-third of them, and enabled the remaining two-thirds to obtain higher wages for a period long enough to establish a higher standard of life. Is there any truth in this statement?
- (c) Why is the standard of life of the American laborer higher than that of the European? Enumerate all the forces that tend to raise the standard in the United States.
2. Suppose a law should be enacted that women should receive the same wages as men wherever the work is similar.
- (a) Would it increase the supply of labor?
- (b) Would it decrease the supply of labor?
- (c) How would it affect the wages of men?
- (d) Would it benefit the wage earning class?
3. (a) Suppose all the servant girls should enter into a secret agreement to break as many dishes and to destroy as much furniture as possible, would it increase the demand for labor?
- (b) If the laborers became so prosperous that their daughters did not go out to work, would it decrease the supply of labor and ultimately raise wages?
- (c) Suppose one-third of the able-bodied men of a country were maintained as soldiers or pensioners, would that decrease the supply of labor and raise wages? Would it benefit the laboring class?
- (d) Suppose one-third were paupers, convicts and idlers:—would wages be higher or lower than if all were engaged productively? Would the wage earning class be better off?
4. (a) Suppose the fertility of the soil were reduced fifty per cent, so that it would require twice as much labor as at present to raise a bushel of wheat, would not the demand for labor increase and the wages of labor increase?
- (b) If the work of a stone cutter could be done by means of a stone saw costing a small amount, with the aggregate



- expenditure of one-half as much labor as before, would the utilization of stone saws in the long run be harmful or beneficial to laborers in general?
- (c) Suppose the state established free technical schools and thus increased the average industrial efficiency of the laborers, would it in the long run tend to raise or lower wages?
 - (d) If the state by means of industrial and agricultural experiment stations introduced improved labor saving methods of production, would it, in the long run, tend to raise or lower wages?
5. (a) If the United States should establish a universal pension system, giving each family a pension of five dollars per month for each individual in the family would it tend to improve or injure the laboring classes, assuming that the pension money is obtained by taxation?
- (b) Would it be beneficial or harmful to the wage earning classes if the money were obtained from tribute paying foreign nations?
 - (c) Would it be advantageous to the laborers if the state should give every wage earner a pension of twenty dollars per month regardless of his earnings, assuming that the pension money were obtained by taxation?
 - (d) What effect would it have if the pension money were not paid in cash, but were given in the form of industrial schools, art galleries, public playgrounds, libraries, etc.?
6. (a) Does food supply have anything to do with the efficiency of labor?
- (b) Do religion and moral motives have anything to do with the industrial efficiency of labor?
 - (c) Do wants for luxuries and comforts have anything to do with the efficiency of labor?
 - (d) Do education and general intelligence have any influence on the efficiency of labor?
 - (e) Does heredity (e. g., temperament, artistic ability) have any influence on efficiency? How?
 - (f) Does the family institution affect the industrial efficiency of laborers? How?

7. (a) Assuming immigration into the United States to be stopped and that the laborers generally should regard as **necessities**, the use of tobacco, weekly visits to the "movies," more costly clothes, etc., involving an expenditure of \$5.00 per week per family more than is at present deemed necessary, would this enlargement of their wants tend to increase their wages in five years? In fifty years? Why? Explain fully.
- (b) If as a result of a great war the laborers generally acquired habits of economy, etc., ate meat less often, spent less on amusements and clothes, would the tendency be for their wages to decline or to rise in five years? In twenty years? Explain fully the casual relations.



CHAPTER XXIIA.

FORCES THAT INFLUENCE WAGES.

I. FREE LAND.

(a) Free land does not affect wages by establishing a standard wage to which factories must conform, but by withdrawing wage earners from factories it tends to decrease the available supply and thus, if free land is fertile, to raise wages. (b) Free land tends to make the laborer more individualistic and independent. This influence is of little importance today. (c) Free land and opportunities for employment on rent-land exercise a constant though relatively unimportant influence on wages today.

II. MACHINERY. Two Theories.

(a) "A machine is an iron man which competes with living men and lowers their wages by overworking and outbidding them." Machinery and invention in the long run decrease the share of the laborers.

1. Machinery increases the product but the whole surplus goes to capital.
2. Machinery displaces labor and causes unemployment.
3. It lengthens the working day.
4. It causes excessive specialization (narrowing influence on laborer).
5. It produces crises.
6. It causes the employment of labor under circumstances unfavorable to health, morals and efficiency.
7. It transforms the independent worker into a wage slave.
8. The centralization of wealth and power are machine made.

(b) Machinery on the whole is beneficial to laborers.

1. Machinery in the long run creates more employment for labor than it destroys.
2. Where machinery has been most extensively introduced there is the greatest demand for labor.
3. Machinery takes over the heavy muscular work.
4. Machinery is not labor saving but product making—the same labor produces a much larger product than before.
5. Increased capital means increased competition for the services of laborers forcing the relative income of the capitalist down and that of the laborer upward.
6. Woman and child labor has decreased where machinery has been most extensively used. Most woman and child labor is in the South and in unprogressive parts of Europe.

(c) **General Conclusions.**

1. The immediate effect of the sudden introduction of improved machinery is to throw some men out of employment.
2. The least efficient are the ones who suffer most.
3. After readjustment in the distribution of labor, there may be greater demand than before.
4. Even if the use of machinery creates no new demand for labor and permanently lessens the amount of labor required to turn out the same amount of product the laborer will usually be benefited by a shortening of the labor day with no decrease in pay per hour.
5. Error of lump of labor idea. The amount of labor to be done is supposed to be fixed, if part is done by machine, some laborer is out of work.
6. The influence of machinery varies with the industry in which it is used. In some the capitalists reap the chief reward, in others the laborers or land owners. There is no hard and fast rule as to who gains most.
7. Improved machinery, where a monopoly does not exist, in the long run inevitably raises real wages.

8. Machinery has produced the great social problems of city life requiring factory regulation, etc.

III. DIRECT LEGISLATION.

1. Minimum Wage Laws.

- (a) General minimum wage laws for a state or a nation appear to be impracticable in operation.
- (b) A minimum wage that would equalize local variations in the same occupation is possible and perhaps desirable where relatively uniform conditions of production prevail.
- (c) A minimum wage may be justifiable and advantageous where employers induce ignorant, unprotected workmen to accept wages lower than are normally paid by reputable employers in reputable industries.
- (d) It seems evident that in case the minimum wage is fixed too high, so that it becomes unprofitable to hire laborers, it becomes the duty of the state to provide for the unemployed who have been thrown out of work. Municipal and public work would have to be used to furnish relief.
- (e) Minimum wage laws do not appear to be a feasible method of raising wages in general above the normal wage-level.
- (f) They tend to restrict investment in some industries and force labor and capital into enterprises of relatively low productivity.

IV. TRUSTS AND MONOPOLIES.

- (a) In so far as they raise prices of consumption goods they lower the real wages of labor.
- (b) They give the laborers less of a chance in the collective bargain.
 - 1. They lessen the chance of a successful strike.
 - 2. They maintain regular strike breakers.
 - 3. They may shut down any plant indefinitely without serious loss.

- (c) They cause excessive control over legislation which results in "jokers" in all measures designed to benefit the laboring class.
- (d) Tend to restrict investment in some industries and tend to force labor and capital into relatively low productive industry.
- (e) So far as trusts really introduce more economical organization and methods of production they are in the long run beneficial to the laborer.
- (f) They may produce greater stability of industry and tend to ward off crises.

V. THE TARIFF. Two Arguments.

- (a) If wages are low, it is claimed that a tariff is needed to raise them. (Argued in early history of country.)
- (b) If wages are high, a tariff is said to be needed to protect them against "pauper" labor in other countries.
- (c) Conclusions. The influence of the tariff on wages has been greatly exaggerated in order to catch votes. High wages are not due to the tariff, but to efficiency of labor, land, and capital. In some industries a change in the tariff may produce stagnation and unemployment.

VI. INFLUENCES OF METHODS OF REMUNERATION UPON REAL WAGES.

1. Time wage. 2. Price wage. 3. The bonus or premium plan, profit sharing. 4. Sliding scale. 5. The truck system (Company stores and supplies).

VII. FORCES THAT TEND TO LOWER WAGES.

- (a) Institutions and laws that restrain the laborers' freedom of movement and choice of occupation.
- (b) Unjust distribution of taxes—indirect and many direct taxes bearing more heavily on the poor than on the rich.
- (c) Inflated currency systems.
- (d) Poor schools and lack of educational facilities.

- (e) Obstacles to collective bargain.
- (f) Governmental administrative machinery used in the interest of the employing class.

VIII. FORCES THAT TEND TO RAISE WAGES.

- (a) Frugality among laborers and capitalists.
- (b) Increase in the intelligence and efficiency of laborers.
- (c) Moral qualities; self restraint, etc.
- (d) Favorable factory legislation.
- (e) Sympathy with and understanding of the labor problem in the community.
- (f) Just tax laws restraining monopolies.
- (g) Trade school, and better educational systems generally.
- (h) Dynamic standards of living in the laboring class.

Read Taussig Chapter 52 x 54.

Quiz Questions.

1. Contrast real with nominal wages and compare with real and nominal expense of labor.
2. Name in order of importance the chief institutions that may cause real wages to be low when nominal wages are high.
3. Does a rapidly increasing population tend to force wages down? Why?
4. Explain the Malthusian theory of population.
5. If the Malthusian theory is correct, what effect will liberal poor relief have on poverty in a nation? On wages?
6. What has been the effect of free land on wages (a) in the colonial period, (b) today? (c) Explain Henry George's theory.
7. Discuss the influence of machinery on labor: (a) The socialist view; (b) The optimist's view, and criticize each.
8. Does machinery change real or nominal wages? How?
9. Is it possible to have minimum wages fixed by law for all industries?
10. Have minimum wage laws been tried anywhere? With what success?

11. Could a minimum wage law be enforced if the wage is too high to enable the employer to continue operating?
12. What is the nature of the minimum wage bill recently before the legislature?
13. Can an eight hour day be enforced in agriculture today? Are all industries adapted to an eight hour day?
14. What effect have capitalistic monopolies upon wages? (a) Upon real wages? (b) Upon nominal wages?
15. Do trusts diminish the possibility of successful strikes? How?
16. Does the tariff protect American labor?
17. Trace the forces set in motion by the tariff and show their final effect on the laborer.
18. What is a sliding scale of wages? In what industries is it generally used?
19. What objections are there to a sliding scale of wages?
20. In what industries would it be impracticable?

Problems.

- A. What is the effect on wages of differences in danger, pleasureableness, social distinction, expense of preparation, with regard to any occupation? Cite examples of each.
- B. Can wages be permanently raised by laws fixing minimum wages?
- C. If women are paid less than men, why are men employed at all?
- D. Enumerate reasons why women's wages are less than men's wages for the same kind of work.
- E. Has the invention of machinery had any effect on the relation of workmen to the master? On the length of the working day?
- F. Will a day's labor buy more or less today than twenty-five years ago?
- G. What advantage had the mediaeval serf over the modern mill hand?
- H. What advantage has the latter over the former?



- I. Are opportunities of workmen to rise to higher positions fewer than formerly? Why?
- J. What effect has our public school system on the comparative wages of skilled and unskilled laborers?
- K. To what extent do the working classes gain from a fall in prices?

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CHAPTER XXIII.

LABOR ORGANIZATION.

I. DEFINITION AND CLASSIFICATION.

1. Labor Union.
2. Industrial Union.
3. Trade Union.
 - a. Local.
 - b. National.
 - c. International.
 - d. Local Federation.
- a. **Local** unions are unions which include only members that live or work in one town or place.
- b. and c. **National and International** unions are made up of locals, each of which have local autonomy to a greater or lesser degree and are joined together in the organization and government of the central body. The relation of the local to the national body is similar to the relation of the commonwealth to the federal government.
- d. **Local Federations or Trades Councils**, are organizations that bind together local unions of particular cities or locations.

II. GOVERNMENT.

- (a) **Union constitutions** define relation of locals to nationals and define the powers of the national organization.
- (b) **National codes**.
 1. Penal codes provide penalties for unions that need to be disciplined.
- (c) The rules and laws of **Local and District Councils**, may contain provisions on anything not forbidden by the federal constitution.



III. LABOR UNION COMMANDMENTS.

1. Thou shalt not work for less than a standard wage.
for only in this manner can our American Standard of living and decency be maintained.
2. Thou shalt rather suffer slight injustice at the hands of the union in which thou hast a vote than at the hands of employer who is an arbitrary despot.
3. Thou shalt not consume unclean goods—goods made by scabs and not bearing the union label.
4. Observe the holidays and refrain from over-time that thy neighbor may also have holidays, and leisure.
5. Honor the union and obey its commands, for it is better to break an engagement than to break a movement.
6. Thou shalt not work beside or associate with a “seab,” for by so doing thy own labor will be measured in terms of the price paid to the non-union worker.
7. Thou shalt not steal thy neighbors job.
8. Thou shalt not bear arms, or wear the uniform of the state, for militia and soldiery are instruments for the oppression of labor.
9. If thy neighbor lays down his tools in a just cause, lay thou down thy tools also that justice may triumph.
10. Thou shalt not use up more than a fair share of the demand for work.

IV. PURPOSE OF LABOR ORGANIZATION.

1. To secure through collective bargaining practical as well as nominal freedom and equality in the wages contract.
2. By regular assessments to raise funds for union purposes, viz.: insurance and benefit schemes, strike funds, publicity, etc.
3. To promote standardization of wages, methods of labor and length of labor day for groups of la-

borers and educate them in co-operation and in conscientiousness of class solidarity. Standardization of apprenticeship. Standardization of wages, standardization of hours of labor—of output, and of conditions of work.

4. To engage sometimes in politics and secure labor legislation.

V. CLOSED SHOP POLICY.

The closed shop issue represents a **stage** in the evolution of some industries, in others, like in building trades, it is more permanent.

A closed shop with closed union unjustifiable. A closed shop with an open union may be defended.

Open or closed shops; kinds.

1. Real open shops, open to union and non-union men alike.
2. Nominal open shops. (Really a closed non-union shop.)
3. Real closed shops where none but union men are employed.
4. Nominal closed shops, where non-union men may be employed under union conditions of work.

Closed shop is not an issue.

- a. Where collective bargain is made for union and non-union men in an industry.
- b. Where compulsory arbitration prevails.
- c. Where bargains are made with monopolies or associations or employers instead of a single employer.
- d. Where union is weak and needs to get members.

VI. SOME ADVANTAGES AND DISADVANTAGES.

Advantages.

THE LABOR UNION.

- a. To the laborer:
 1. Strives to raise wages, shorten hours, improve conditions of labor by collective bargaining.



2. Provides accident, sickness, funeral and out-of-work benefits. (Insurance.)
2. Promotes social features. (A working-man's club.)
- b. To the employer:
 4. Brings together homogeneous group of workmen by establishing standards of skill.
- c. To the public:
 5. Is a training school for democracy. (Foreigner learns civics in union.)
 6. Is an Americanizing influence. Helps to assimilate the foreigner by improving his standard of life.

Disadvantages.

THE LABOR UNION.

- a. To the laborer:
 1. Tends to hold back the most efficient workman and to equalize the good and the bad.
 2. Often forces the laborer into strikes against his will.
- b. To the employer:
 3. Substitutes loyalty to union for loyalty to employer.
 4. Sometimes tries to run employer's business, control output, dictate methods etc.
 5. Sometimes opposed to efficiency, new machinery, and more up to date organization of working force.
- c. To the public:
 6. Causes stoppage of business, increased cost of living due to excessive wages (where union has monopoly).
 7. Often causes agreement between union and employers to raise prices to squeeze the public.
 8. Increases income of skilled labor, partly at expense of unorganized labor.

Read Ely, Chapter XXIII; Taussig, Chapter 57; Carlton, History of Organized Labor, Chapter VI.

Quiz Questions.

1. Is the labor union an outgrowth of the mediaeval craft guild? See d, i, and k, p. 352.
2. What were the chief purposes of the Knights of Labor?
3. Why did the Knights of Labor decline in importance?
4. Contrast the character and purposes of the Knights of Labor with the modern labor unions.
5. Describe the government of a labor union.
6. Does it resemble a confederacy, a federal government or an autocracy?
7. Do labor unions have constitutions?
8. Contrast a national with a local union with reference to organization and government.
9. Contrast a labor union with a trade union.
10. Contrast labor and trade unions with industrial unions.
11. How does a union enforce its laws?
12. How is a man tried for violation of union rules? What is meant by being "unfair?"
13. Is there any economic justification for labor organizations?
14. How may trade unions discourage outsiders from learning trades?
15. Explain the apprenticeship rules of some union.
16. How do unions attempt to regulate wages?
17. Discuss the attitude of labor unions toward overtime, short labor day, etc.
18. What is their attitude toward piece work? Why?
19. What is the union label? What is it for?
20. What is the attitude of trade unions toward machinery?
21. What are the labor union views on restriction of output?
22. Name the chief objects and functions of trade unions.
23. Name the chief advantages and disadvantages of trade unions.
24. What officials has the local union? A National organization?
25. What is a closed shop? How is the system enforced?
26. What are the causes for a closed shop policy?
27. Can the closed shop be defended?





28. What relation is there between piece work and restriction of output? What theory of wages underlies the restriction of output practice?

Problems on Union Policies.

1. (a) If every union man should make a practice of breaking every empty bottle he could lay his hands on, would his own well-being and the well-being of the glass blowers be improved immediately? In the long run?
(b) If the glass blowers union had a closed shop and strict apprenticeship rules, how would it affect their well-being?
(c) Suppose every union were careful not to break bottles, so that the average service of a bottle were twice as long as at present how would it influence the wealth of the union men? Of the glass blowers? Why?
2. (a) Is a closed shop more easily enforced in the building trades or in the cigar makers trade? Why?
(b) Is a closed shop policy more easily enforced in a trade requiring a long period of apprenticeship or in one with a short period?
(c) Is a closed shop more general in a mixed trade, i. e. a trade using many different kinds and grades of labor, or in a trade in which but one grade of labor is employed?
3. (a) Suppose Wisconsin should establish a minimum wage of five dollars per day. What effect would it have on immigration into Wisconsin from foreign countries? From other states.
(b) Would industries employing labor tend to multiply in Wisconsin as rapidly as at present if the minimum wage were fixed at five dollars per day?
(c) Would many old men find work with such a minimum wage? Why?
4. (a) Compare the "lump of work" argument in its application to a closed union with monopolistic powers and to an open union where the monopolistic policy of the union is small.

5. Should hours be shortened by the day or by the week? Should hours be shortened by giving a half holiday on Saturday or by working a shorter time each day? Should hours be shortened by establishing a maximum working day in all industries, on the farms, for cotton pickers, in pea-canneries or smelters? Why?
6. What effect on the apprenticeship system of trades unions will the establishment of efficient public trade schools have? Do unions generally favor this kind of schools? Why?
7. What is the union man's reason for working, in many cases, to limit the output of the workers in an industry?
8. What is the tendency with reference to initiative, referendum and recall in English Unions?

CHAPTER XXIII.

INDUSTRIAL WAR.

- I. **A STRIKE** is the refusal of employees of one or more establishments to work unless the management complies with some demand or refrains from taking some proposed action.
- II. **A LOCKOUT** is a refusal on the part of the management of one or more establishments to allow employees to work unless they comply with some prescribed condition or conditions.
- III. **A SCAB** means an employee or sometimes an employer who has violated some union principle, with whom or for whom, members of the union are barred from working.
- IV. **A BOYCOTT** "is a common refusal on the part of a number of people to deal with a person whose action is believed to be antagonistic to their interest."
- V. **A CLASS STRIKE** or a **General Strike** is a demonstration by large masses of laborers for the purpose of furthering proletarian class interests.
- VI. **SABOTAGE** is a method of direct action employed by laborers who are not on strike, whereby they consciously damage the interest of their employer either by bad quality of work, or by consciously injuring the tools or machinery of the employer, or in any other way by indirectly harming him or his interests. Examples: (1) putting a handful of sand in a costly machine; (2) damaging a piece of furniture in such a way as to make it unsaleable; (3) working on a suit of clothes in such a way as to spoil it; (4) dropping corrosive acid on goods about to be sent to a customer; (5) changing the price cards on goods displayed, so as

to sell costly goods at a low figure; (6) scattering seeds of weeds together with grain when at work on a farm, etc.

VII. MEANS OF WINNING STRIKES.

(a) By laborers:

1. Boycott: **Simple**, when a group of laborers agree not to buy; **compound**, when they enlist co-operation of third parties. (This is a conspiracy in the eyes of the law.)
2. Unfair list or fair list.
3. Picketing.
4. Public opinion.
 - (a) Favorable to strikers, viewed by the press and other agencies.
 - (b) Expressed by ostracism of non-striker, publication of pictures of scab in union papers, by refusal to associate with non-strikers, etc.
5. Intimidation and violence.

Illegal, and frowned upon by best unions.

(b) By employers:

1. Boycotts (blacklist) or white lists.
2. Public opinion, control of press, etc.
3. Organization of strike breakers. (Mutual strike insurance.)
4. Injunctions.

Arguments for.

- (a) The ordinary process of law is inadequate. It is too slow, the officers of the law fail to enforce the law being dependent on voters for their office.
- (b) Some unions or strikers are irresponsible; they cannot be reached by ordinary action at law, since no damages can be collected.
- (c) Property rights are fundamental; if they are broken down, the government is endangered.



- (d) The judiciary of the United States is a court of last resort. It should take action where irreparable injury will result.
- (e) Injunctions are the only effective way of law enforcement during strikes under existing conditions.

Argument against.

- (a) The constitutional guarantee of speedy trial by jury in state where offence is committed is abrogated.
- (b) A court is made an executive as well as a judicial body.
- (c) Blanket injunctions are particularly unjust.
- (d) Injunctions are more useful to property than to men.

VIII. GENERAL CONSIDERATIONS.

- (a) Strike is a very effective weapon against an employer who is engaged in competitive industry.
- (b) Strikes become less and less effective as employers combine and form monopolies and trusts.
- (c) There is a tendency to resort more and more to collective bargaining (brains) and less to strikes (physical force).
- (d) Strikes are becoming "business propositions" taking into account markets, situation of employers and feeling of public, rather than sudden outburst of feeling against what appears to be wrong.
- (e) Growth of strong unions results in fewer strikes and amelioration in conduct of strikers.
- (f) Unions need as never before **intelligent, educated** leaders.
- (g) Best union leaders constantly being drafted off into public service and into business enterprises.

Quiz Questions.

Carlton: History and Problems of Original Labor. Chapter VII.

1. What is a strike?
2. Is there any rule as to the recurrence of strikes?
3. Classify the causes of strikes. What causes are most important?
4. Is the union an organization to carry on strikes?
5. Explain the attitude of labor towards violence in strikes.
Is there any justification for violence?
6. What is the effect on the success of strikes: (a) of trusts, (b) of employer's associations?
7. Describe the organization and methods of protective employer's associations.
8. "The strike has been commercialized." Explain.
9. Classify boycotts.
10. What is an unfair list? Contrast with a blacklist.
11. Discuss the attitude of courts towards strikes.
12. Explain the origin, character and interpretation of conspiracy laws?
13. What is the legal status of strikes in public service corporations?
14. What is picketing? Is it legal?
15. What is the attitude of labor towards injunctions?
16. What are the objections to the use of injunctions?
17. Compare the case of the Buck Stove & Range Company with that of the Danbury Hatters.
18. Contrast the boycott with the union label.
19. How might the union label be labor's "most powerful weapon?"
20. Explain the chief features of the following strikes: The Anthracite coal strike of 1902; The McKee's Rocks strike; The Cloak & Suit Makers' strike in New York, 1910.
21. In what unions are strikes most likely to appear?
22. What forces tend to make strikes less frequent?
23. What is the effect on local strikes of a powerful national union organization with a full treasury?

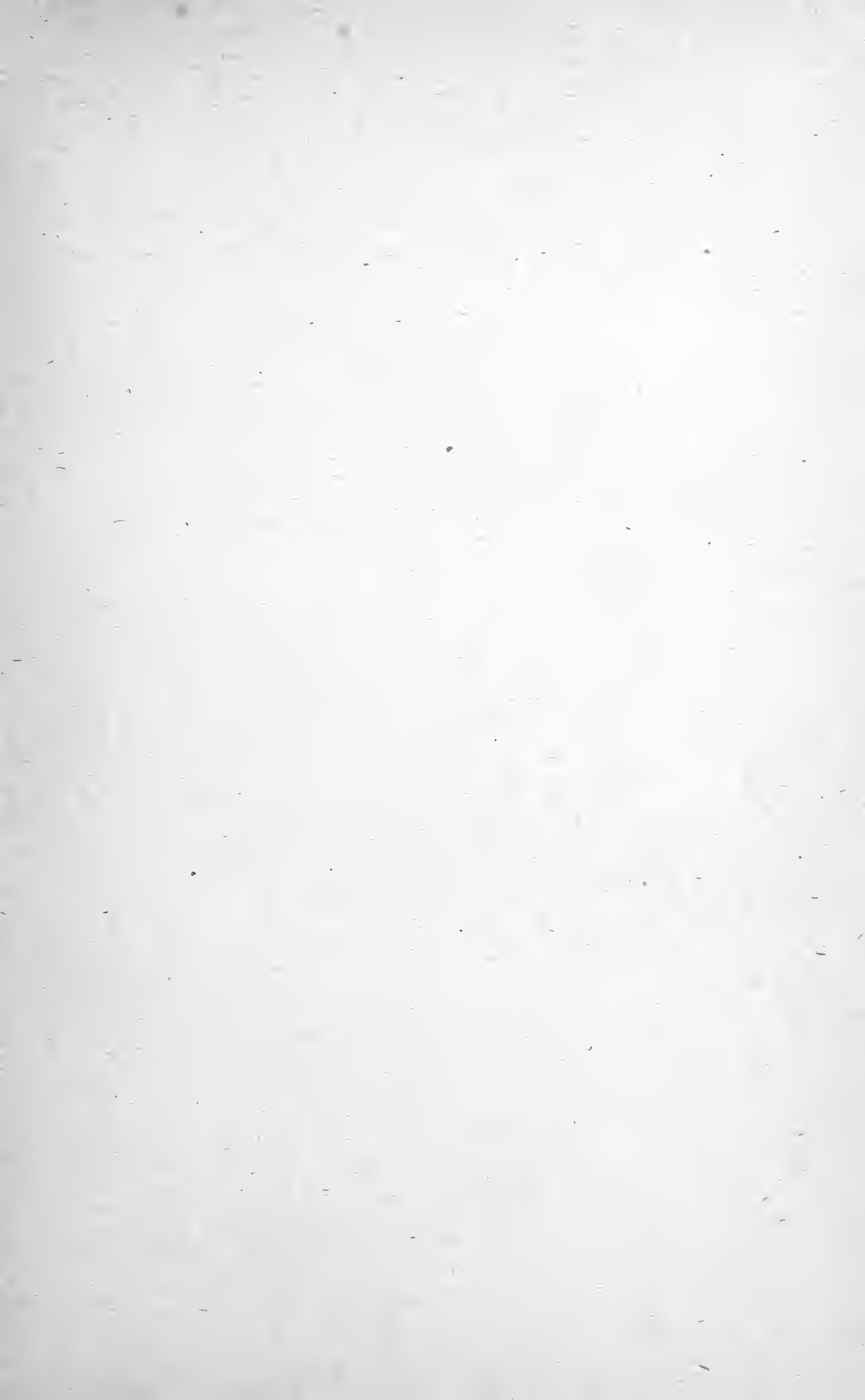


Problems.

(Cite page reference and authority consulted on each problem.)

1. What is the trend of judicial decisions in regard to sympathetic strikes? Are they lawful?
2. Is picketing lawful according to judicial decisions? Is it lawful for a union to picket a grocery store and to persuade people not to buy there?
3. May employers lawfully use the blacklist, or the white list? Is the practice now contrary to law?
4. Has an employer a right to discharge all his employees at any time, without other plausible reason, for violation of factory rules?
5. Has a union a right to fine a member two dollars for failure to march in the parade on labor day?
6. Is the "union label" an instrument of industrial war? If so, how is it used and with what results?
7. What is meant by an eight hour day in the coal industry?
8. Is it better to limit the number of hours per day or to limit the number of hours per week? Which is the better limit, nine hours per day or fifty hours per week?
9. Suppose the union laborers in the building trades succeed by strikes and other means in raising their wages from \$2.50 to \$4.50 per day and suppose that as a result building costs are increased twenty-five per cent. What effect will this have on rents of newly completed dwellings? What effect will it have on rents of older dwellings? Who in the long run pays for the increase in wages? The contractors? The house owners? The tenants?
10. Suppose an employers liability and insurance law is passed involving an increase in building cost of three per cent. How is this paid? Who pays directly? Indirectly?
11. Suppose weather conditions and business make it necessary for a worker in the building trades to be idle five months per year and a law is passed requiring employers to employ the workers by the year and to pay them for the

enforced idleness as well as for the days actually employed. How would this influence the relative well-being of workers in the building trades as compared with those employed in the factories?



CHAPTER XXIIIB.

CONCILIATION AND ARBITRATION.

Definitions.

- I. **ARBITRATION** is* “the authoritative decision of an issue as to which the parties have failed to agree, by some persons other than the parties.”
- II. **CONCILIATION** is* “the discussion and settlement of questions between parties themselves or by their representatives who are themselves actually interested.”
- III. **MEDITATION** is* “the intervention, usually uninvited, of some outside person or body—with a view to bringing the parties to the dispute together in conciliatory conferences.”
- IV. **COLLECTIVE BARGAINING** is* “the process by which the general terms of the labor contract, whether oral or written, are determined by direct negotiation between employers or employer’s associations, and organized workingmen.”
- V. **THE NEWLANDS ACT.**

Scope.—Limited to employees engaged in train operation, engineers, firemen, conductors, etc. Sections 1, 2 and 3 provide for meditation and should meditation prove unsuccessful, sections 3-7 make provision for arbitration. One or two arbitrators shall be selected by each party to the controversy. The two or four thus selected choose a third, or the remaining two, provided they can agree within five days upon the man or men. In case they fail to agree, the Board of Meditation and Conciliation shall select a third man or, in case of six, the two men. Usually each side selects a representative who is one of their own officials. The burden of the decision therefore rests, in most cases, on the third arbi-

* (Quoted from Report of Industrial Commission, V. XVII p. LXXV.)

trator, who must act as umpire between the other two. Section 4 provides for appeal from the decision of the arbitrators, provided a bill of exceptions is filed within ten days showing an "error of law apparent upon the record." The award is filed with the clerk of the District Court of the United States, and after that either party has the right to appeal to the Circuit Court of Appeals, whose determination is final.

No employee shall be required to render personal service without his consent and no injunction shall be issued to compel any employee to perform personal services against his will.

Quiz Questions.

INDUSTRIAL WAR

Carlton, History of Organized Labor. Chapter IX.

1. How have large scale production and organized labor affected the character of labor disputes?
2. Why should governments interfere in labor disputes?
3. Define and compare conciliation, arbitration and trade agreements.
4. What provisions are there in the Federal law for arbitration and conciliation?
5. What is the experience of the various states as to arbitration and conciliation? Cite examples.
6. Discuss the causes for and working of the Anthracite Coal Commission of 1902.
7. What is the position and importance of the National Civic Federation?
8. Compare the aims and methods of the National Civic Federation with those of the Citizen's Industrial Association.
9. What are the advantages and defects of conciliation and arbitration as practiced in the United States?
10. Describe the working of a trade agreement. Discuss some typical trade agreement.
11. What are the conditions for the success of such agreements?



12. Describe the Canadian Industrial Disputes Act. To what extent is arbitration compulsory? Compare with the New Zealand methods.
13. What criticism could be made of the Canadian Act?
14. Compare voluntary with compulsory arbitration. What are the relative advantages and disadvantages of each?
15. Illustrate from the working of the New Zealand Act the advantages and defects of compulsory arbitration.
16. Point out the relation between compulsory arbitration and a legal minimum wage.
17. What is a wage-board system? What are its advantages?
18. Would compulsory arbitration be likely to succeed in the United States, having succeeded in Australia?
19. What is the attitude towards compulsory arbitration (a) of employers (b) of organized labor?
20. What agencies for industrial peace do we have in Wisconsin?

Problems.

1. Cite industries in which collective bargaining is carried on.
See k, n, o, p, q, y, s, a.
2. Give an account of the contents of some joint agreements.
See k, i, n, o, a.
3. Describe the parties to a joint agreement. Whom do they represent? Have they full powers, or must their acts be ratified by their principals? See a, l, i, n, o, q, a.
4. For how long are joint agreements binding? a, i, k, a.
5. Contrast collective bargaining with conciliation and arbitration. See i, j, k, l, y, z, a.
6. Contrast voluntary with compulsory arbitration. See c, p. 222, y, z, a.
7. In what countries have the two schemes been tried? ú, y, z, a.
8. Explain the system in operation in France. See l, a.
9. Give an account of the Canadian Disputes Investigation Act. See i, p.
10. Is compulsory or voluntary arbitration more promising for the adjustment of labor disputes in the U. S? Why?
See s, w, x, y, z.

11. What is the attitude of organized labor toward compulsory arbitration? See e, p. 239, w, x, y, z.
12. Are employees generally in favor of compulsory arbitration? Why? Explain fully the laborer's attitude. See w, x, y, z.

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- (t) Yale Review, May 1910, p. 32, Arbitration in Australia.
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CHAPTER XXIIIC.

LEGISLATION AS A SOLUTION OF THE LABOR PROBLEM.

I. THE JUSTIFICATION OF LABOR LEGISLATION.

1. **The weakness of the laborer in bargaining** makes it impossible for him to have stipulations concerning conditions of labor, sanitation, safety, etc. in his wage contract.
2. **Ignorance and indifference** of the average laborer concerning sanitation and safety apparatus make it impossible for him to secure them even if it were feasible through his own initiative.
3. **The problem of the twentieth man.** Nineteen employers may be willing to make all reasonable improvements, the twentieth employer holds out and often forces the other nineteen to conform to his harsh and primitive methods.
4. **The problem of the Sweatshop.** Manufacturers who employ men, women and children long hours and under unwholesome conditions can often undersell competitors who have introduced shorter hours and better working conditions.
5. **Sources of Labor Legislation.** Reforms through labor legislation have come through men of science and social reformers, administered by expert inspection administrative officials.
6. **Scope of Labor Legislation.** Successful labor legislation merely fixes the plane of competition and prescribes the metes and bounds of the bargaining which must take place between employers and employees in fixing wages.

II. TREND OF RECENT LABOR LEGISLATIONS.

1. Up to 1907 labor legislation, state and national, had taken the form of laws restricting the length of the labor day in state and federal employments, laws for the protection of the wages of employees of contractors engaged in constructing public works, and laws making stockholders liable for the wage debts of the corporations and laws giving married women control over their own earnings.
2. In 1908 and 1909 the subjects most generally covered by state and federal laws were employers' liability, abrogating and modifying the common law defenses, women and child labor laws, prescribing conditions of employment, hours of labor—fifty-four hours per week laws etc.
3. In 1910 special attention was given to workmen's compensation, retirement pensions and social insurance. Several state commissions for enforcing and administering the labor laws were created.
4. In 1911 still more attention was paid to workingmen's compensation with special reference to occupational diseases.
5. In 1912 legislature gave more importance to workmen's compensation and in several states laws providing for accidents reporting were enacted.
6. In 1913 the drift was toward wage regulation, minimum wages in certain occupations, support for dependent children, and state employment agencies or exchanges.

III. DIRECT LEGISLATION.

1. Minimum wage laws.

- (a) General minimum wage laws for a state or a nation appear to be impossible.
- (b) Minimum "real" wage, i. e. a wage that would equalize local variations in cost of living, is possible and perhaps desirable where relatively uniform conditions of production prevail.



- (c) A minimum wage may be justifiable and advantageous where employers induce ignorant, unprotected workmen to accept wages lower than are normally paid by reputable employers in reputable industries.
- (d) The claim is made that where the minimum wage is fixed too high so that it becomes unprofitable to hire laborers, it becomes the duty of the state to provide for the unemployed thrown out of work. Municipal and public work would have to be used as relief work.
- (e) Minimum wage laws do not appear to be a satisfactory method of raising wages in general above the normal wage-level.

IV. CLASSES OF LABOR LAWS.

1. Laws to protect Health and Life.
2. Employers' Liability Acts.
3. Laws Prescribing Time and Method of Wage Payment.
4. Laws Regulating Length of Labor Day.
 - (a) Eight and ten hour laws.
 - (b) Sunday work laws.
 - (c) Legal holidays, and Saturday half-holidays.
5. Child Labor Laws.
 - (a) Limiting hours of labor of children.
 - (b) Limiting occupations in which children may be employed.
 - (c) Truancy laws (compulsory education).
6. Laws Regulating Employment of Women.
7. Trade Disputes Acts.
8. Compulsory Insurance; life, sickness, accident, old age, unemployment.
9. Immigration Laws.
10. Labor Exchange or Employment Bureau Acts.
1. Minimum Wage Laws.

Quiz Questions.

LABOR LEGISLATION.

Carlton, Chapter X.

1. What is meant by laissez faire?
2. Explain the influences causing the American Constitution to embody the principle of laissez faire.
3. Why have the American people been so averse to state interference?
4. To what extent have modern conditions made laissez faire impossible?
5. Is industrial legislation a violation of liberty?
6. What do you mean by liberty?
7. Is equality to be found in freedom of contract?
8. How has labor legislation been allowed by the courts in seeming contradiction to clauses of the constitution?
9. What seems to be the trend in the court's attitude?
10. Illustrate this trend in the matter of working hours for women in factories?
11. Why was England led to pass the first Factory Acts?
12. What were the abuses which the Factory Acts tried to prevent?
13. Describe the development of the English attitude towards labor organization?
14. What are the chief forms of labor legislation in the States?
15. Upon what does the efficiency of such laws depend?
16. What are the social as compared with the legal sanctions for labor legislation.
17. Explain the different considerations arising in the limitation of working hours for (a) children, (b) women, (c) adult males.
18. What constitutional objection is there to the legal regulation of the labor day?
19. To what extent are the hours of adult laborers regulated in the States? How is such regulation justified? Illustrate this from the cases of Holden vs Hardy and Lockner vs New York.

20. Could a law be passed preventing discrimination against union men?
21. What is the common law doctrine of employers' liability?
22. How is the working of employers' liability affected by (a) the fellow-servant doctrine (b) contracting out?
23. To what extent do workmen suffer from a system of employer's liability?
24. Enumerate the defects of this system.
25. Contrast workmen's compensation with employer's liability.
26. What is the principle of the English Workmen's Compensation Act?
27. Should the employer bear the whole burden of compensation. If so, why?
28. Discuss the Wisconsin Employers' Liability Act.
29. What is meant by compulsory insurance? What is such insurance chiefly for?
30. Compare contributory and non-contributory insurance.
31. What is the English law as to old-age pensions?
32. Describe the German system of insurance against sickness.
33. Describe the insurance and pension systems of the International Harvester Company.
34. Point out the gains arising from workingmen's insurance from the point of view of (a) the employers (b) the employees (c) society.
35. What law does Wisconsin have for the protection of employees?

CHAPTER XXIIID.

PRIVATE INITIATIVE AS A SOLUTION OF THE LABOR PROBLEM.

I. CO-OPERATION.

(a) Producers' Co-operation.

1. Co-operative manufacturing establishments have not generally been successful.
2. Farmers' co-operative cheese and butter factories have been largely successful.
3. Co-operative marketing of dairy products in Denmark.
4. Co-operative marketing and advertising of fruit and to a less extent of grain in the northwest.

(b) Consumers' Co-operation.

1. Successful in certain classes in Germany, England and Denmark.
2. Occasionally farmers' co-operative stores succeed in U. S.
3. Co-operative purchases of fertilizers and farm machinery successful.

(c) Co-operative Insurance.

1. Co-operative fire insurance companies generally successful.
2. Co-operative hail or cyclone insurance not generally successful.
3. Co-operative life insurance moderately successful.

(d) Co-operative Rural Credit.

(e) Prerequisites of Successful Co-operation.

1. Standardized, easily tested, staple commodities.



2. Area small enough for co-operators to know each other and their officers.
3. Absence of efficient enterprising competitors with up-to-date business methods.
4. Industries requiring little specialized, technical, or business skill.
5. Industries requiring relatively small amounts of capital.
6. Relatively homogenous population with habits of thrift and willingness to take trouble for the sake of small economies in making purchases or sales.

II. PROFIT SHARING AND STOCK OWNERSHIP BY EMPLOYEES.

- (a) **Sliding scale wage**, by which wages vary with the price of the product.
 1. This is undesirable unless it is coupled with standard minimum rates below which earnings may not go.
 2. The system is impossible except in trades engaged in the production of staple products the prices of which are not subject to violent fluctuations.
- (b) **The bonus system**, by which employees receive bonuses, varying in amount with the wages of the individual, whenever the output or profit of a plant exceeds some fixed amount.
- (c) **U. S. Steel Corporation's plan** of selling stock to the employees on favorable terms, and giving each holder of such stock a premium in addition to the regular dividend.

III. THE HOUSING PROBLEM AND SOCIAL WELFARE WORK.

- (a) **Company Houses.** Advantages and disadvantages. Gary, Pullman, Krupp, Germany.

- (b) **Model houses** by private semi-philanthropic organizations.
- (c) **Semi-philanthropic** associations for promoting home ownership by the laborers.

IV. IMPROVEMENT OF PUBLIC HEALTH.

- (a) Pure food; pure water; pure ice; pure milk; etc.
- (b) Good system of sanitation.
- (c) Promotion of varied diet among poor. Better cooking and utilization of food products.

V. INTELLECTUAL AND SOCIAL IMPROVEMENT.

- (a) Social settlements.
- (b) The function of private initiative in education; kindergartens, day nurseries, trade schools, etc.
- (c) Wholesome, educational theatres, amusement halls, workingmen's club houses, clean press, the institutional church.
- (d) Endowed parks, art galleries, etc.

VI. INDUSTRIAL IMPROVEMENT.

- (a) Employment agencies.
- (b) Consumers' league.
- (c) Safe industrial insurance.
- (d) Legal bureaus, furnishing legal aid to laborers.
- (e) Philanthropic pawn shops.

VII. CAMPAIGN OF EDUCATION OF WELL-TO-DO.

- (a) Elimination of graft and corruption in politics.
- (b) Creation of social standards of honesty, public spirit and helpfulness among rich.
- (c) Establishment of sane ideals and fashions among rich, leading to wiser expenditures by poor.
- (d) Substitution of social pleasures for narrow private consumption.





CHAPTER XXIV.

THEORIES OF INTEREST.

I. PRODUCTION OR COST THEORIES.

- (a) **Naive productivity theory.** Capital helps in production. Capital is a productive power independent of labor, and produces a surplus for which its owner must receive a reward, interest. **Criticism:** Increase in quantity of goods does not necessarily mean an increase in value. A machine derives its value from the goods it helps to produce, and does not give value to its products.
- (b) **Marginal productivity theory.** Interest is measured by the value of the surplus product attributed to any given unit of the available stock of capital.

II. ABSTINENCE THEORY. (The dominant theory of early English economists.)

Labor+used up capital+raw material+abstinence involved in accumulating necessary capital=product. Interest is the wage of abstinence. Renunciation or postponement of gratification is an independent sacrifice in addition to the labor sacrificed in production. The return for this renunciation is interest. **Criticism:** The laborer is not paid wages because he makes a sacrifice but because his products are valuable, and in the same way the capitalist does not receive interest because he makes sacrifices in the accumulation of capital but because capital is helpful in the production of goods. Furthermore, much capital is accumulated without any voluntary sacrifice or renunciation on the part of anyone. Those who receive the largest returns on their investment—millionaires—frequently practice the least abstinence, whereas the man who abstains from satisfying physical wants usually gets the lowest return.

III. LABOR THEORY OF INTEREST.

- (a) **Naive.** Capital labors like human beings, and should receive a wage.
- (b) **The Capitalist** is a sort of social functionary. His services consist in the saving up or accumulation of private capital.
- (c) **The Intellectual Process** necessary to saving and accumulating capital must be paid for. This intellectual work is separate and distinct from the muscular work of capital production.

IV. EXPLOITATION THEORY.

Interest is withheld wages. (See chapter on Socialism.)

V. THE TIME PREFERENCE THEORY OF INTEREST.

A problem of valuation.

Interest is a premium paid for present goods because present goods are, as a rule, worth more than future goods. Present goods possess a premium on future goods because:

- (a) The human mind is unable to realize future wants as vividly as present wants.
- (b) Most people are less well provided for in the present than they hope to be in the future.
- (c) Roundabout methods of production are generally more profitable than direct methods.

VI. There are three elements in the market rate of interest first, the time preference above mentioned, second, payment for the risk involved in loans, and third, payment (often) for securing and managing loans. The time preference theory offers an explanation of the first element. The second element is determined by the character of industrial society, the security of property, the stability of laws, and many other conditions, (harvests, panics, wars, etc.). The third element will vary with the nature of credit institutions, the kinds of loans available and the business ability of lenders.



VII. FORCES THAT TEND TO RAISE OR LOWER INTEREST OPERATE THROUGH DEMAND AND SUPPLY.

- (a) **The Supply of Capital** in a country depends upon the general prosperity and thrift of the people; upon the number of persons who control capital which they do not wish to employ in their own business; and upon the absence of loans to foreign countries or persons.
- (d) **Demand for Capital** depends upon the density of the population, the skill and efficiency of the people, the inventiveness and enterprise of the people, and the extent and fertility of natural resources.
- (c) **The rate in short time and call loans** is determined largely by the credit situation, by the amount of bank reserves and the amount of actual cash available in the credit institutions of business centers.

Quiz Questions

1. Define interest. Compare loan interest with imputed interest.
2. Interest is a payment for the use of money. Criticise.
3. State the three real problems of interest.
4. Is it true that capital produces interest?
5. Is interest possible because, with capital, more goods are produced than without?
6. Why is interest possible?
7. To what extent will an entrepreneur make use of capital?
8. Why is the supply of capital limited?
9. Does waiting involve a sacrifice? What sacrifice?
10. Explain the difference between present and future values and their relation to interest.
11. Would there be any saving without interest?
12. What is marginal waiting?
13. In what kind of goods would a borrower of \$1,000 invest his money? Why should he be willing to pay \$1,060 at the end of the year?
14. In what ways is capital obtained?

15. What is meant by the replacement of capital? What principles govern this?
16. How is capital usually transferred from one industry to another?
17. In what way does the rate of turnover affect the investment of capital?
18. If a certain form of capital lasts only six months, how much value must it contribute to production to justify an investment when the rate of interest is 6%.
19. What determines the value (a) of new capital goods? (b) of capital once invested?
20. Contrast free with specialized capital. Why is the distinction important?
21. What determines the rate of net interest? of gross interest?
22. Point out the influences determining the demand for and supply of capital.
23. What is the effect of increasing per capita wealth on the interest rate?
24. Compare gross interest with net interest.
25. What is a usury law? What is its effect on the rate of interest?
26. Name as many kinds of interest-yielding securities as you can.
27. What is meant by collateral security?
28. What is meant by double name paper? Why is it better than single name paper?
29. Contrast a call loan with a farm mortgage.
30. Classify investment securities.

Problems.

1. Suppose that the total amount of capital saved up in the past year is one hundred millions. Draw and explain a diagram illustrating the relative amount of sacrifice involved in the accumulation of each of the ten millions.
2. (a) Suppose that a certain machine costing \$1,000 lasts but eight months, how much value per annum must it contribute to the producer in order to justify its purchase when the rate of interest is 6%?



- (b) Suppose present wants appear to the marginal saver to be twice as important as wants to be satisfied one year from now, what rate of interest will prevail?
3. Other things being equal, in which place would you expect the interest rate to be higher and why?
- (a) In Mexico or Texas?
 - (b) In a country inhabited by negroes or in one inhabited by Yankees?
 - (c) In a region in which prices have been steadily rising or in one in which they have been steadily falling for ten years?
 - (d) In a country with a gold standard having in circulation \$10 per capita or in a nation with the same standard and in which \$50 per capita is in circulation.
 - (e) In a new, sparsely settled, fertile country, or in an old, well settled, thriving region.
4. (a) If a share of stock, par value \$100, is expected to yield an average dividend of \$4.00 per year and if it is subject to a special tax of 40 cents per annum and if interest rates are six per cent, what is it worth?
- (b) If the interest rate should fall to five per cent would the share of stock increase or decrease in value? What would it now be worth?
- (c) If money can be loaned at five per cent, compounded annually, what would be the present value of a non interest bearing note of \$35,280 payable in two years from the present date.
5. (a) If a broker should offer you a ten per cent bond for sale at par and should assure you that it was absolutely safe and first class in every way, would you believe him? Why?
- (b) If a broker offers you certain securities at par and guarantees two per cent per month interest, would you invest? Why?
- (c) For what class of persons is it better to invest in a 10 per cent security involving some risk, than in a five per cent security involving no risk?
- (d) How high may interest on call loans go? Why?

- (e) How high may interest on absolutely safe, long time loans go in Wisconsin today?
- 6. (a) If all human beings were suddenly changed into persons who could feel and realize future wants just as vividly as present wants would the supply of capital be more or less abundant than at present?
- (b) If, under the above conditions, additional capital would tend to increase the product in certain industries how would it in the long run effect the rate of interest?
- (c) If, under the conditions of paragraph (a) capital became too abundant to yield any net product, would interest be paid?
 - 1. On savings bank deposits?
 - 2. On loans to poor people on their household goods?
 - 3. On loans for purposes of consumption when the security was strictly first class?
- 7. Contrast the returns on a government bond with the returns on a farm mortgage with special reference to the following points:
 - (a) Amount of return.
 - (b) Ease of collection.
 - (c) Possibility of law suits.
 - (d) Taxes.
 - (e) Insurance.
 - (f) Stability.
- 8. (a) If gold should be found in large quantities in the soil in and around Madison, how would it effect the prevailing local rate of interest immediately? In the long run?
- (b) How does a crisis affect the rate of interest?
- (c) Is a high rate of interest always a sign of prosperity? Under what conditions is it a sign of poverty?
- 9. Classify in order of importance for investment purposes the following securities: Municipal bonds, mining company bonds, railroad bonds, state bonds, United States bonds, manufacturing company bonds, apartment house bonds, street railway bonds, farm mortgages.
- 10. By aid of a financial paper make a list of securities, with the yield of each, which it would be wise for a widow to buy



if her fortune amounted to \$10,000. Would a different distribution be made in the case of a business man with a fortune of \$100,000? Why?

11. Does capital have value because its products are valuable or do the products have value because valuable capital is used in their creation? Does capital always really earn interest or is interest a part of the value of the product imputed to the capital used in its production? Is interest paid for the use of capital for the same reason that wages are paid for labor?

CHAPTER XXV.

PROFITS.

Definitions.

I. THE SURPLUS THEORY OF PROFITS.

- (a) Profit is differential surplus due to exceptional entrepreneurial ability or to exceptional opportunities and is measured by the difference between the returns of superior entrepreneurs and those of marginal entrepreneurs.
- (b) Marginal entrepreneurs may also receive a return which may be called **necessary profits** sometimes termed **wages of management**. This must be sufficient in amount to cover the cost of securing an adequate supply of managerial ability in industry.

II. RISK THEORY OF PROFITS.

Profits are a payment for the risk assumed by the entrepreneur. This element of risk is found in all capitalistic undertakings and in some in which no capital is used. In the latter case it must in the end be paid for by the consumer.

III. NATURE OF PROFITS.

Net income from business is called profit. Business involves the use of either land, labor or capital or combinations of any two or all of them.

IV. CLASSIFICATION OF PROFITS.

- 1. **Conjunctural or chance profits** are due to unforeseen favorable conjunctures in business.
- 2. **Speculative profits** (commercial) are due to the purchase or sale of goods in anticipation of a change in price.



(a) **Legitimate or justifiable.**

1. Place Speculation or buying in one market to sell in another—"arbitrage."
2. Time Speculation. Futures, options, puts, calls, etc., where speculator really assumes economic risks that some one else would have to bear.

(b) **Illegitimate Speculation.**

3. Market manipulation, corners, wash sales, booms, etc.
 4. Gambling, bucket-shop operations, so-called "flyers" in the stock or produce exchange.
3. **Monopoly profits** are obtained by means of partial or complete control of the supply or the demand of a given commodity or service. (a) legitimate, (b) illegitimate.
4. **Normal or necessary profits**, is the remuneration for the efforts and trouble and risk that employers incur in the management of ordinary business enterprises.

V. FUNCTION OF THE SPECULATOR. (commercial.)

- (a) To secure to society lower and more stable prices by equalizing supply and demand.
- (b) To transfer the risk-taking function to men specially trained and fitted to perform the task and to allow the merchant or manufacturer to devote himself exclusively to his special work.

Quiz Questions.

1. Contrast profits with interest. What is the business man's conception of profits?
2. How are profits measured, by the year or by the turnover or how?
3. What are the elements that go to make up profits?
4. What is an entrepreneur's wage? How is it fixed and how does it differ from an ordinary wage?
5. In what way is an entrepreneur a speculator?
6. Compare managerial with speculative ability.

7. What is the importance of speculation in industry?
8. What are the advantages and disadvantages of speculative gains as seen in competition?
9. Compare chance gains with speculative gains.
10. What determines gains of bargaining?
11. What effect does competition have on profits in various industries?
12. What determines monopoly profits?
13. May monopoly profits arise while competition still exists?
14. In what kind of business is good will most important?
15. Does the entrepreneur get too much or too little for his services?
16. Contrast speculation with gambling.
17. What is meant by sales on margins?
18. What useful function does the trader perform if he buys wheat when it is cheap and sells it when it is dear? Explain.
19. What is meant by a short sale on the stock exchange? "Shorts rushing to cover?"
20. Name some things regularly sold on the stock exchange and name others not generally dealt in, and explain what classes of goods naturally lend themselves to exchange or trading.
21. Who are the "lambs" on the stock market?
22. What is the difference between a promoter and an entrepreneur?

Problems.

1. (a) In an old established branch of business or industry, the principles of which were thoroughly understood by most men interested in that line, would the pure profits, on the average, be a positive or negative quantity?
(b) If money is loaned at 8% on a business involving considerable risk and if current savings banks rates are 5% should the extra 3% be considered as a payment for waiting or as a part of profits?
(c) Is the essential feature in the return to the entrepreneur a payment for risk taking, for management or for both?
2. In each of the following cases, what part if any, of the profit gained is a payment for service to society?

- (a) Two telephone companies which still operate separately but by secret agreement increase their rates 50% above those necessary to yield 8% net on the investment.
 - (b) A fire insurance company.
 - (c) The "bear" who sells wheat "short" for future delivery.
 - (d) The honest gambler who operates a roulette wheel and gains a profit of 10% of the stakes.
3. A young man of great ability but without financial resources is just starting in as an entrepreneur. He finds that a combination in the ratio of X units of labor, Y units of capital and Z units of land yields maximum profits. With this amount of each his net profits are \$1,000 per year. With 5 X units of labor, 5 Y units of capital and 5 Z units of land he can make \$4,000 per annum. With 100 X units of labor, 100 Y units of capital and 100 Z units of land he could make \$60,000, and so on. What limits the number of units of each which he will employ?
4. A successful entrepreneur discovers that a composite unit consisting of X part of labor, Y part of capital and Z parts of land is the most profitable ratio of combination and gives maximum net returns. By multiplying the composite units of this nature, he finds gross income and expenses to vary as follows:

NO. UNITS EMPLOYED	COST PER UNIT PER ANNUM	VALUE ANNUAL PRODUCT PER UNIT
50	1,000	250
80	900	243
90	700	409.50
100	600	405
150	500	375
200	400	320
250	350	262.50

- (a) How many composite units will he employ?
- (b) Will he cease employing new units when he has reached the point of diminishing productivity? Prove.
- (c) Will he cease employing new units when he has reached

the point of diminishing net return per unit? Prove.

- (d) Will he continue to employ new units as long as he can make a net profit on the average unit employed? Prove.
 - (e) Will he continue to employ new units as long as each new unit added continues to increase the net gain of the business? Prove.
5. A farmer owns his farm of 80 acres for which he has recently paid \$10,000. He rents 80 acres more of equally good land at \$4 per acre per annum. He owns \$5,00 worth of live stock and machinery. The buildings which were on the farm when he bought it are worth \$4,00. His cattle are mortgaged for \$1,000 and the farm for \$5,500. Interest rates are 6%. Until recently he has been engaged as foreman of a ranch at \$900 per annum. His son helps with the work and he could earn \$400 per year elsewhere. The farmer employs a hired man for six months at \$40 per month. The products of the year are sold for 3,800. Insurance and miscellaneous operating expenses other than interest or wages amounted to \$500. During the year he bought his wife a new piano for \$240 on monthly installments of \$20 each, paying 7% interest on all balances due. Apportion the net book income of the farm among wages, interest, rent, entrepreneurial wage and pure profit or loss.
6. A miller has contracted in August to deliver 1,000 barrels of flour in October at the then prevailing market prices. He buys 5,000 bushels of cash wheat at 96 cents to be used in his mill in order to fill the order, and to protect himself, hedges by selling short at \$1.01, 5,000 bushels of October wheat for future delivery. If the elevator, interest and insurance charges on his August purchase are \$200, and if he is able to cover his October wheat, by buying cash wheat at 90 cents, how much does the miller gain or lose on the transaction aside from milling profits? How much would he have gained or lost had he refrained from hedging? Suppose the above miller has to pay \$1.07 for his cash wheat in October?
7. Cotton manufacturers A and B bought five hundred bales of cotton each, at the prevailing prices. Three months later when their cotton cloth was marketed its price together



with the price of raw cotton had fallen 25%. Manufacturer A hedged when he made his cotton purchase and B did not. Was A a cotton speculator when he "hedged" or did B really speculate when he failed to "hedge?" Why?

8. Is it possible to speculate in land? Is it possible to make "short sales" in land? Why? Are steel rails sold "short?" Are diamonds? Stocks? Gold? What are the characteristics of goods in which "shorts" are sold?
9. Is a rise in price caused by speculation ever an advantage to society? e. g. eggs bought up by cold storage companies in the summer? Apples packed and stored by fruit companies?
10. What sorts of profits are most permanent? Profits based on monopoly? On realty? On ability? On artificial scarcity? On advertising?

CHAPTER XXVII.

TRANSPORTATION.

Definitions.

I. THE TRANSPORTATION PROBLEM involves

- (1) Discrimination in favor of some individuals, places, sections, industries, at the expense of other industries, sections, etc.
 - (a) By the foundation of large fortunes.
 - (b) By the promotion of monopolies.
 - (c) By the promotion of large scale production and geographical division of labor.
 - (d) By an excessive political control over cities, states and sections.

II. THE NATURE OF THE RAILROAD BUSINESS.

- (1) It is a business with relatively largely capital.
- (2) It is more frequently than in other lines of production, a business of decreasing expense per unit of service.
- (3) The principle of joint cost applies more generally than in other lines of business.
- (4) It is a business of partial or complete monopoly.
- (5) It is a business in which, in a rapidly developing community, unearned increment, or **social surplus** is relatively larger than in other productive enterprises.
- (6) **It is a Quasi-Public Business.**
 - (a) It exercises the right of eminent domain.
 - (b) Early railroads are largely subsidized by cities, states, and the federal government.
 - (c) Next to the banking business, it exercises the most far-reaching influence on all other class of enterprises.



III. CONTROL OVER TRANSPORTATION.

1. Direct control.

- (a) Granger laws.
- (b) Direct rate fixing by legislation.
- (c) Taxation.

2. Indirect control.

- (a) The chartering of rival lines and the attempt to secure competition.
- (b) State Railroad Commissioner (without much power).
- (c) State Railroad and Public Utilities Commission.
- (d) Federal control. Interstate Commerce Commission.

(1) Interstate Commerce Act 1887.

- a. Prohibited unreasonable rates.
- b. Prohibited discrimination between persons, places and commodities.
- c. Causes fares and rates to be printed and made public.
- d. Caused no larger charges to be made for short haul than for long haul.
- e. Prohibited pooling contracts.
- f. Created Interstate Commerce Commission.

(2) Elkin's law in 1903.

Made corporation as well as agent liable for violation of law. Provided for more speedy trials and \$1,000 to \$20,000 fine for rebates or failure to publish tariffs.

(3) Hepburn Act 1906.

Included pipe lines, express company's, etc., under "common carriers." Enlarged the commission from five to seven members. Gave Commerce Commission power to fix minimum rates as well as to declare certain rates unreasonable. Required

uniform accounting. Prohibited the use of passes and made it unlawful for railroad companies to transport for sale any commodity in which they had a proprietary interest.

(4) **Mann-Elkins Act of 1910.**

- a. Commerce court created. To enforce the orders of the Commission. To try all cases of set aside orders of the Commission. To try all cases of rebating. To try all mandamus proceedings under the Commerce law.
- b. Enlarged the power of Commerce Commission so as to include telegraph and telephone companies.
- c. Increased the Commission's powers over rates.
- d. Strengthened the anti-rebating clause.
- e. Increased the power of the Commission in general.

(5) **The Clayton Act of 1914.**

- a. Prevents one railroad company from holding stock in a rival line.
- b. Prevents interlocking directorates in railroads.
- c. Prevents railroads from dealing in securities, supplies or articles of commerce.
- d. Provides for the supervision of bids on construction and repair work for railroads.

3. **Government Ownership.**

IV. THEORY OF TRANSPORTATION CHARGES.

1. **Monopoly charge, i. e. "charging what the traffic will bear."**



2. Value of the service theory.

- (a) Value of a transportation service is sometimes measured by the difference between the price of a commodity at its point of shipment and at its destination. This method is defective because if the freight rate is low enough and the supply of the commodity is large the amount would tend toward zero—and conversely if the demand is intense enough and the transportation charge is high enough the value of the service would approach infinity.

3. Cost of service theory.

- (a) Physical valuation is merely a part of the cost service theory of measuring railroad rates, it involves estimates of the value of the physical plant of a railroad company. It may be used as a basis for reasonable returns on stock and bond issues. Physical value, in itself, determines only about one-fourth of the cost of service. The other costs involved are labor, raw material, repairs, etc.

Quiz Questions.

1. Give a classification of transportation facilities showing their scope and significance.
2. What proportion of the railway mileage of the world is found in the United States?
3. What important differences are there between the transportation business and other competitive enterprises?
4. Why is transportation necessarily a monopoly?
5. Why is there not competition where two or more lines run parallel to each other?
6. What period is known as the competitive era in transportation?
7. How did the government strive to secure fair rates during this era? Are rebates always necessarily harmful?
8. What is meant by a railway pool?
9. When was pooling first prohibited by law?

10. What bearing did the Anti-trust act of 1890 have on transportation?
11. Did it prevent one road from swallowing up another by lease? Purchase? Purchase of majority of stock? Holding company?
12. Have anti-trust laws (state or national) checked the tendency to eliminate competition in transportation?
13. Name the chief great railroad groups in the United States.
14. To what groups does the C. & N. W. belong? The C. M. & St. P.? The Great Northern?
15. Has the general level of freight rates gone up or down during the past forty years?
16. What has been the chief cause? A change in all rates or a change in a certain kind of rates? Why?
17. Is expense a good criterion of just freight rates? Why?
18. Is it correct to say that owners of railway investments ought to be given a fair return? Why a fair return?
19. What is the cost basis of figuring reasonable rates?
20. Can the cost of carrying particular commodities be determined?
21. What is meant by group rates?
22. Explain the "basing point" system?
23. Name the chief lines of argument for private operation of railroads.
24. Name the chief arguments for government ownership?
25. What two types of railroad commissions are there? What powers has each?
26. Should railroads be regulated by the government?
27. Name the four principal lines of regulation that have been tried?

Problems.

1. The selling price of potatoes in Sparta is 25 cents per bushel. The retail price of potatoes in Madison is 80 cents per bushel. Expenses of handling at Madison are 15 cents per bushel. What would be the freight rates on potatoes from Sparta to Madison on the value of service principle?
2. A carload of household furniture will sell for \$1,000 in Denver and \$600 dollars in Madison. What should the



freight rate be if you decide to ship your furniture from Denver to Madison, using the value of service principle?

3. Assuming that it costs \$8.00 per thousand to log and saw lumber on the Pacific coast; and assuming that the amount capable of being obtained from a tract of land is five million feet; assuming, furthermore, that this lumber can be marketed in the east at \$20.00 per thousand, and that the freight charges, exclusive of canal tolls, are \$5.00 per thousand: compute the valuation of the land to the owner where no canal tolls are charged, and also where tolls amounting to \$2.00 per thousand are collected by the government from all vessels engaged in the coast-wise trade.
4. Suppose the cost of logging and sawing lumber is as indicated and that the lumber men on the Pacific coast are ready to retail their lumber at the mill at \$15.00 per thousand; and assume further, that the freight and canal tolls are as above mentioned, what will be the price of lumber to the consumer in the East, in case canal tolls are charged, and in case the canal is free to coast-wise shipping?
5. A. Suppose the transcontinental railroads allow shipments from Chicago to the Pacific coast at lower rates than from Denver to the Pacific coast, what effect will such freight rates have upon manufacturing and business enterprises in Denver?
5. B. Suppose that railroad freight rates are cheaper on oil from the Pennsylvania refineries to the Middle West than from the Independent refineries located in the South, what effect will such rates have upon competition in the oil business? Upon monopoly?
6. If railway freight rates from New York to Chicago are relatively lower than rates from Baltimore to Chicago what effect will such rates have upon the development of Baltimore as an importation center and what effect will it have upon large scale manufacturing enterprises in Baltimore?
7. The average returns of railroads from freight in 1912 were 68.7% of the entire gross receipts; returns from passenger service 23.7%; returns from other sources 7.6%. On what

branch of service is a railroad most likely to increase its charges in order to obtain more revenue? Give reasons why.

8. What is meant by physical valuation? What is the relation of physical valuation to the bonds and stocks of a railroad company? What roles do interest on bonds and dividends on stocks play in computing cost of transportation service?
9. A railroad has a franchise worth \$1,000,000. Should it be allowed to charge rates high enough to yield a reasonable rate of interest on this sum in addition to a reasonable return on the capital regularly invested in the business? Should anything be allowed for going value? Why?

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- (d) RIPLEY, *Railway Problems*.
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CHAPTER XXVIII.

INSURANCE.

Definitions.

I. **INSURANCE** is the equalization of losses, and the assumption of risk.

1. **Hazard** means the degree of probability of loss and may vary from 0 or impossibility to 100% or certainty.

II. **A MUTUAL INSURANCE COMPANY** is one in which the members share each others' loss directly.

(a) Mutual Insurance Companies Classification.

1. Legal reserve, old line or level premium mutuals.

Mutuals issuing guaranteed or closed contracts.

2. Mutuals issuing open contracts.

(a) Assessment life associations governed and managed like mutuals.

(b) Fraternalists that issue open contracts and may levy assessment in case they are short of funds.

III. **A STOCK INSURANCE COMPANY** is one in which the policy holders share each others losses somewhat indirectly because the stockholders (as middlemen) by means of their capital assure the policy holders the payment of their policies even though the losses are greater than normal.

IV. **AN INSURANCE CERTIFICATE** is a statement certifying membership. The usual stipulations and agreements are found in the by-laws.

V. **AN INSURANCE POLICY** contains stipulations and is a contract binding on both parties.

- VI. **AN INSURANCE PREMIUM** is the amount agreed upon in advance, and based upon statistical data, to be paid by the policy holder periodically.
- VII. **AN ASSESSMENT** is usually the amount levied according to the experience of the company or society after the loss has occurred, although legally it may include fixed premiums where such premiums are not limited. Theoretically an assessment represents the policy holders' share of the actual losses incurred during or up to a specified time.
- VIII. **WHOLE LIFE** is paid at the death of the insured, to the beneficiaries.
1. **Ordinary Life Policy** is one in which the payments are continuing during the entire life of the policy.
 2. **Limited Payment Policy** is one in which the period of premium payments is shorter than the life of the policy.
- IX. **TERM INSURANCE** is temporary insurance.
1. Stipulated term of 5, 10, 15, or 20 years.
 2. To age of 50, 55, 60, 65, etc.
- X. **ENDOWMENT INSURANCE** is paid to the person insured provided he survives a stipulated period, usually five, ten, twenty years etc., or to beneficiaries, should he die sooner.
- XI. **REQUISITES OF A GOOD INSURANCE POLICY.**
1. Rates should be adequate and equitable.
 2. Should give thirty days of grace to pay premium.
 3. Should be non-forfeitable.
 - (a) should provide for cash loans.
 - (b) for cash surrender value.
 - (c) for extended insurance.
 4. Should be incontestable after a reasonable time for any cause, except for non-payment of premiums.
- XIV. **RESERVE** is the policy holder's equity in all property except surplus of company similar to the balance on the pass book representing the depositor's equity in a savings bank.

XV. ECONOMICS OF INSURANCE. PROTECTION V. PREVENTION.

1. Insurance is an institution, the chief function of which is the regular systematic assumption of economic risk resulting from uncertainty. Risk from fire may be eliminated:

- (a) by building fireproof buildings (great initial cost).
- (b) by paying a small sum annually to some one who agrees to replace the house should it burn within the specified period.

Both (a) and (b) are productive from the standpoint of economics. In many cases (b) is more productive than (a). It involves an increase of wealth since it decreases the social cost of risk. Insurance does not decrease losses, but it distributes them and eliminates the additional loss, disutility, due to uncertainty. This protection is a valuable service and must be paid for like other services or commodities. Where risk of loss is very great, e. g. where a man has reached old age, the price to be paid is greater than where he is young and risk is less.

2. Insurance creates time utilities.

Essentials.

- (a) **An insurable interest**, i. e. an uncertainty that really involves a possibility of economic loss.
- (b) **Actual loss by destruction** (or disappearance from owner, e. g. insurance against theft) of economic goods or income or earning power.
- (c) **Contract involving assumption of risk** in return for consideration.

3. Gambling vs. Insurance.

- (a) The gain of one at the expense of another.
- (b) No assumption of risk or economic loss or destruction of goods.
- (c) No uncertainty as to property or income growing out of industrial conditions but an artificially created hazard originating in a bargain.

4. Life Insurance based on mortality tables.

A table furnishes the factor or function, qx where q =probability of dying in a year, and x =age, which shows the actual cost of carrying a risk of a unit amount such as \$1.00 or \$1,000 etc., at any age, for one year. Premium+interest—cost of risk=value (reserve).

5. State power over Insurance.

The sale of insurance is not interstate commerce, (see *Paul vs. Va.*, 1869,) hence state government may regulate without violating the interstate commerce clause of the constitution.

XVI. CONTROL OF THE INSURANCE BUSINESS.

No industry needs thorough, systematic and continuous control more than the insurance business.

This is due to: (1) its highly technical nature, (2) the opportunities in it for fraud. Four stages of government regulation.

1. Attempts to secure publicity of accounts begun by Massachusetts, 1807.
2. Establishment of standard of solvency for insurance companies, 1858, Massachusetts.
3. Establishment through law of the principle of policy-holders' equity in the company by fixing surrender value. Massachusetts, 1861.
4. Attempt to secure by means of regulation economy of management, and the prevention of manipulation of insurance companies' assets, 1906, New York, and by a more stringent law in 1907 in Wisconsin.

Quiz Questions.

1. Contrast **insurance** with **gambling**.
2. In what ways is insurance **productive**?
3. Is the **endorsement** of a note **insurance**? Why?
4. Explain a loan on bottomry such as was used in England in the 13th and 14th centuries.
5. When did systematic fire insurance first begin?
6. Contrast **old line** with **assessment** insurance.
7. Name the chief kinds of fire insurance companies.
8. Give a classification of **old line** life companies.
9. Enumerate the different kinds of insurance which a person can buy at present.
10. What data does a **mortality table** furnish?
11. What objection is there to the **step-rate** plan?
12. What is meant by the "**human factor**?"
13. What is meant by the "**moral hazard**?"
14. What kind of companies frequently use this plan?
15. Explain the **level premium** plan.
16. Contrast the **ordinary** life with the **limited** payment plan.
17. What is meant by **term** insurance?
18. Contrast **reserve** with **surplus**.
19. From what sources may a **surplus** be accumulated?
20. Is an insurance company safe that has an adequate reserve but has no surplus?
21. Is a company safe with a large surplus but an inadequate reserve?
22. Contrast an **endowment** with a life policy. Criticise the text.
23. Is a pure endowment policy very desirable for a policy holder who will save without any extraordinary stimulus?
24. What is **industrial** insurance?
25. Contrast a participating with a non-participating policy.
26. Name and characterize each of the four stages of insurance regulation.
27. Against whom does the policy holder need protection in a stock insurance company?
28. What particular kind of regulation do his interests require in a fraternal company?
29. What is the chief danger in a mutual company?

CHAPTER XXX.

SOCIALISM.

Definitions.

- I. **SOCIALISM** is a program for changing the present distribution of wealth and income by substituting collective for private ownership of capital, and social or state management of all business for the present competitive system.
- II. **COMMUNISM** is a more collective scheme which provides for the abolition of private property rights not only of production goods but generally of consumption goods as well.
- III. **ANARCHISM** aims at the complete abolition of organized government, the partial or complete destruction of the fundamental economic institutions and the substitution of voluntary agencies for governmental compulsion in the maintenance of order. Anarchist writers—Proudhon, Schmidt, Bakunin, Kropotkin.
- IV. **SYNDICALISM** is a type of socialism which hopes to gain its end—complete socialization of the instruments of production—by means of “direct action” and “sabotage.”
- V. **MARXIAN SOCIALISM—PRINCIPLES.**

1. **Labor cost theory of value.**

- (a) Commodities exchange in the ratio of their respective costs in terms of labor.
- (b) Commodities in which equal quantities of labor are embodied, i. e. produced in the same labor time, have the same value.
- (c) Intangible things like honor, a good name, a man's vote, have a **price** but no **value**. Their value is imaginary, not real.



- (d) Skilled labor counts as multiplied unskilled labor in the value relation, one day's labor of an artist equals forty days labor of a bricklayer.

2. Iron law of wages.

- (a) "Average wage is the minimum wage; i. e. that quantity of means of subsistence which is absolutely necessary to the production of labor power."
- (b) "Value of labor power equals sum of means of subsistence necessary to the production of labor power."
- (c) "Labor is paid for but not paid, involving increasing misery, oppression, slavery, degradation and exploitation."
- (d) There is a constant increase of the "industrial reserve army," i. e., the army of the unemployed, forced to work at starvation wages.

3. Exploitation theory of interest and profits.

- (a) "Capital is dead labor that, vampire-like, lives by sucking living labor and lives the more, the more it sucks."
- (b) Interest and profits are products of labor withheld from the laborer by capitalists who refuse to allow laborers to have access to machines (capital), unless they consent to the extortion.
- (c) Aggregate interest and profits equals the aggregate of withheld wages.
- (d) The rate of interest is determined by the ratio of aggregate capital devoted to production.
- (e) The laborer is increasingly underpaid, so that he has less purchasing power, resulting in under-consumption and finally crisis.
Exploitation increased with:
 - 1. Increasing length of labor day.
 - 2. Increasing speed and intensity of work.
 - 3. Increasing productivity of labor through

greater division of labor and newer and better machines.

4. Decreasing cost of labor by employment of women, children, etc.

4. The materialistic interpretation of history. "Ideas are children who must be carried and who are not themselves able to bear burdens."

- (a) The history of each age is shaped by the economic life of the people, i. e. by the prevailing method of wealth production and distribution, and the material or productive forces.
- (b) "Slave production" gave rise to the political institutions, the art, science and religion of the classic world.
- (c) Serfdom and feudalism were the dominant forces in the middle ages.
- (d) Capitalistic production, i. e. the systematic robbing of the workman without machines by those who own the machines, is the dominant force in modern society.
- (e) Each force when it has fulfilled its mission gives way to the next.

5. The doctrine of the class struggle. Wage workers of all nations, unite!

- a) "The one common fact in all past history is the exploitation of one part of society by another."
- (b) All history is the history of class struggles.
- (c) The slave insurrections in Greece and Rome, the peasant revolts in England, Germany and France, the rise of the bourgeois in the eighteenth century, and the proletariat movement today represent successive waves of attack of the exploited against the exploiters.
- (d) The last class struggle is on, the class-conscious organized proletariat against the soulless organized capitalist corporations.





6. The revolution.

- (a) The laborers' condition deteriorates until they have nothing to lose but their chains and everything to win through revolution.
- (b) This revolution is but a stage in evolution, just as an avalanche is a part of gradual changes in nature.
- (c) This revolution is scheduled to appear as soon as the middle classes have been eliminated, leaving only "the robbers" and "the robbed" to face each other.
- (d) The proletariat will then seize the political power and exploit the exploiters.
- (e) After the social revolution will come the millennium—all men virtuous, happy, peaceful, industrious and contented.

VI. CRITICISM OF MARXIAN SOCIALISM.

1. Theory of value.

- (a) Labor is one of the **several** elements that usually determines value, not the **only** element.
- (b) A satisfactory theory of value must explain **all** exchange values whether they are tangible or intangible. To call some of them imaginary, unreal values is dodging the issue.
- (c) To say that articles of great value involving small amounts of labor are the results of **condensed labor** is begging the question. Commodities like growing trees, that have involved no labor, are carefully excluded from the Marxian discussion of values.

2. Iron law of wages.

- (a) Many socialists now admit that most laborers get more than subsistence minimum and that the condition of the laborer is **not** generally deteriorating.
- (b) Wages may fluctuate between two limits—the upper, which is the entire value of the

product, and the lower, the subsistence minimum. Sometimes laborers may by monopoly methods get even more than they contribute in values.

3. Surplus value.

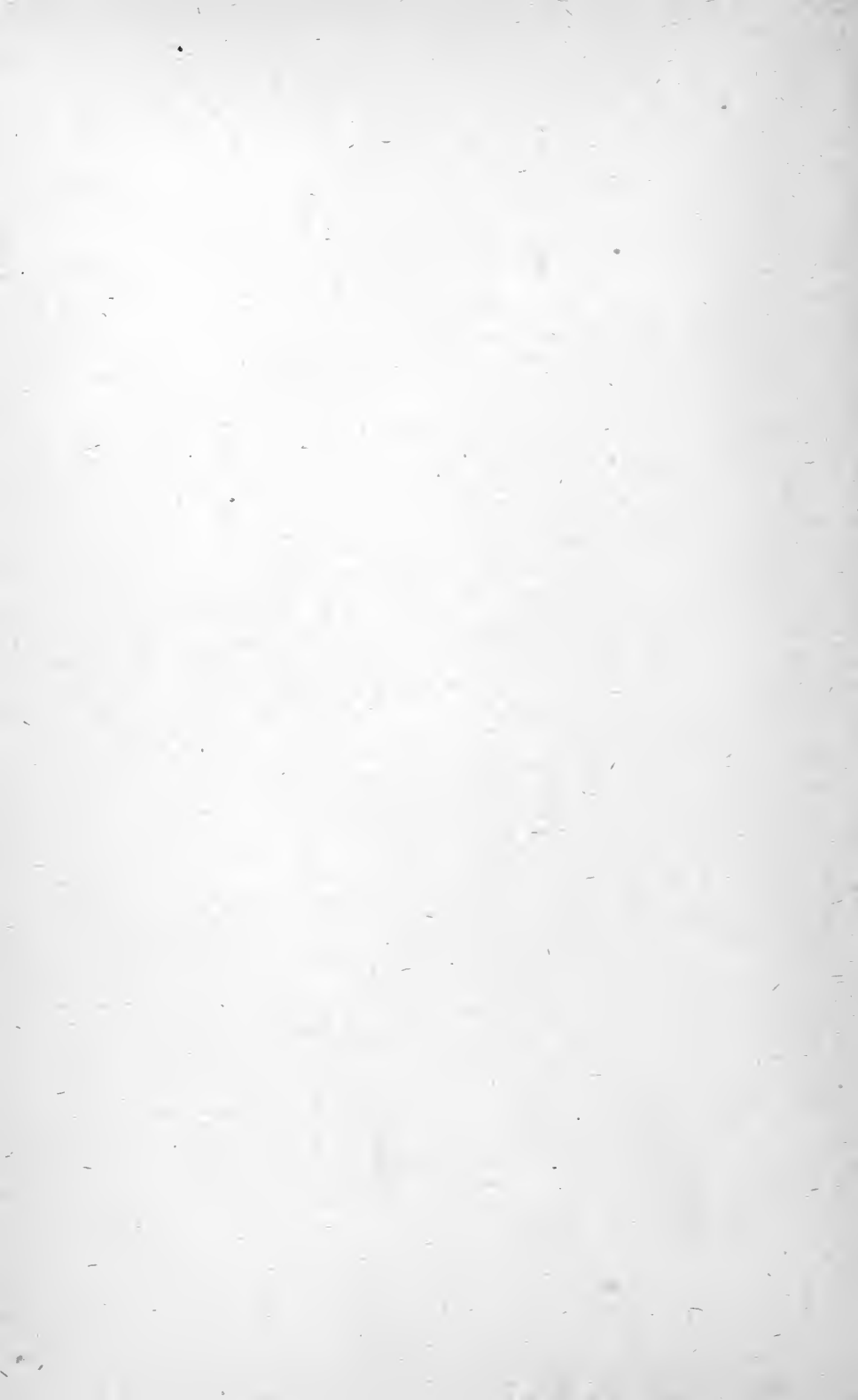
- (a) Socialists often give too narrow a meaning to labor. Why is not the labor of the man who organizes great industries and takes great risks just as much "condensed labor" as that of the artist or skilled artisan?
- (b) The claim that interest and profits are all "withheld wages" is pure assumption. No proof is offered.
- (c) Increased use of capital, better organization, etc., mean progressive amelioration of the condition of the laboring classes rather than increasing misery. Laborers are most prosperous in capitalistic countries and least prosperous in countries where capitalism has made least progress.
- (d) **Exploitation theory contains an element of truth:** Some profits are due to exploitation of laborers or of landowners, or both, e. g. monopoly profits, profits due to fraud, stock manipulation, etc., etc. Some of the profits of the English manufacturers during the last century, at the time Marx wrote, may have been due to exploitation.

4. Economic interpretation of history.

"A statesman can never alone by his own efforts accomplish anything; he can only wait and listen till he hears the footsteps of the Almighty echoing through the changing events, then spring forward and grasp the end of His mantle—that is all."—Bismark.

If the statesman fails to grasp the mantle of the Almighty at the opportune moment, the history of the nation is changed and its culture declines.





- (a) No completely worked out unified history based on materialism has yet appeared.
- (b) All modern historians lay more stress on economic forces and less stress on military affairs or political institutions.
- (c) To deny influence of constitutions, ideals or ethical forces on the affairs of men is pure assumption: no adequate proof is offered.
- (d) Applied socialism constantly ignores the materialistic theories. Why organize, why agitate, if material forces inevitably shape the affairs of men without human intervention?

5. and 6. **Class struggle and revolution.**

- (a) Class struggle is not a normal phenomenon in evolution of industry. It is abnormal and exceptional, like disease in a person or war in a nation.
- (b) The general deterioration of the condition of laborers and an increased tendency toward revolution is contrary to the trend of history. Successful revolutions are not carried out by starving, oppressed laborers, but by prosperous, individualistic, more or less independent classes.
- (c) The socialist theory that the "Great Revolution" will end all class struggle and produce stability contradicts the general theory of class struggle.
- (d) Marx over-emphasizes class struggles because he lived and wrote during the era of revolutions. The Socialistic theory of revolution really is a by-product of the 18th century philosophy of revolution. Evolutionary changes are much more effective than revolutions.

VII. GENERAL CRITICISM.

- (a) Marxian socialists fail to take cognizance of the independent, self-employed, self-directed laborer,

and are primarily interested in wage labor. This is a one-sided, narrow conception of labor.

- (b) They exclude from consideration all productive effort that is not directed toward creation of commodities for exchange. This is a one-sided, narrow conception of the **real problem** of value.
- (c) They devote themselves almost exclusively to discussion of tangible, productive capital, and fail to consider commercial, loanable funds, the work of banks. This is a narrow, one-sided interpretation of capital.
- (d) The greatest concentration of capital has taken place, not through productive enterprises, where many laborers are employed and presumably (?) exploited, but in banking and commercial enterprises, where few laborers are hired.
- (e) Socialism is a protest against the excessive **laissez-faire** policy of the 18th century. The tendency toward extreme individualism has been checked without, however, going to its opposite extreme.
- (f) For purposes of propaganda, socialists have made a **fetish** out of class conflict. **They ascribe exaggerated importance to the class struggle.**
- (g) The motives to industrial activity on which socialists rely appear to be much too weak to take the place of the powerful motives operating under a system of private property.
- (h) Applied socialism would probably result in a most gigantic scramble for political power. The man with the political instinct will get the easy jobs, education for his children and high salary; the other fellow will do what he is told to do.
- (i) Individualism, one of the mainsprings of progress, will be partially destroyed, and will probably be displaced by tyranny more far-reaching than that exercised by the most absolute monarch in all Europe.
- (j) It appears to be almost impossible to establish fair standards of valuation of different economic

goods without the present standards, established by competition, to refer back to.

- (k) It appears to be impossible to determine effectively how much labor time shall be devoted to consumers' goods and how much to the production of capital.
- (l) **Socialism is a religion of discontent.** The truth or fallacy of socialistic theory does not materially affect the true believer. Some modern evolutionary socialists have discarded many Marxian theories and are becoming more and more political opportunists advocating those things that will catch votes. Many of these so-called socialist parties are socialistic in the Marxian sense, only in name.
- (m) With all its fallacies, Socialism has succeeded in awakening the laboring class and arousing it to political action.

VIII. THE MODERN SOCIALISTIC MOVEMENT is interpreted in an infinite variety of ways in modern so-called socialistic organizations.

1. The **evolutionary socialism** represented in its mildest forms by the English Fabian Socialism, aims at a gradual extension of existing governmental institutions without actually engaging in political or industrial strife.
2. The **constructive reform socialists** of Germany and in some sections of the United States devote their energy to practical tasks of economic organization such as the establishment of co-operative societies, the introduction of compulsory life insurance and educational enterprises of all kinds, etc.
3. The "**direct action**" groups represented by the Syndicalists of France, denounce the method of parliamentary action and rely very largely on the "General Strike" as an instrument of reform.

4. **The extreme Revolutionary direct action party**, represented by the Revolutionary Syndicalists of France and by the International Workers of the World of the United States, maintain that the modern state, no matter what party controls it, is always an instrument of oppression of the propertyless classes by the well-to-do, and that force should be used—blood and iron where necessary—to accomplish its overthrow.

Problems.

1. Define socialism and explain each part of the definition.
2. Explain the Socialistic ideal of distributive justice.
3. What other ideals of distributive justice are there?
4. What is a Utopian Socialist?
5. Who was Robert Owen? Name other representatives of his school.
6. Compare Scientific with Utopian Socialism.
7. What are the chief features of Marxian Socialism?
8. Are all Socialists revolutionists?
9. Compare the ideas of Jaure's with those of more advanced Socialists.
10. What other varieties of Socialism are there?
11. What is Communism—compare with Socialism.
12. What is the Socialist attitude on competition?
13. Discuss the advantages claimed for Socialism.
14. Enumerate the chief weaknesses of the Socialist system.
15. Contrast Socialism with Social Reform.
16. Would the Socialists abolish interest?
17. Would they abolish capital?
18. Would they abolish private property?
19. What is their theory of value?
20. How does the Socialist movement stand today?
21. Where is it the strongest? In what industries? In what countries?
22. Compare Anarchism with Socialism.

CHAPTER XXXI.

AGRICULTURAL PROBLEMS.

- I. The relation of the state to the farmer.
- II. The credit institutions of the farmer: (a) National banks; (b) state banks; (c) land sharks; (d) co-operative credit.
- III. Educational facilities of the farmers' children.
- IV. Good roads. Rural mail delivery—socializing, anti-individualistic tendencies.
- V. The Fertilizer Trust, the Beef Trust, the Agricultural Machinery Trust and the farmer.

Quiz Questions.

1. Is agriculture a centralized or a decentralized industry?
2. Are there any limits to the size of an economic farm?
3. Would a dairy farm with 2,000 cows be as profitable as 100 small farms with 20 cows each?
4. What forces tend to counteract intensive farming?
5. Is there a trend toward intensive or extensive farming at present?
6. Cite illustrations of this tendency.
7. Would a universal system of small holdings be desirable for a country? Why?
8. Give two possible explanations or reasons for the general increase in tenancy in the United States.
9. Is there a trend toward latifundia in this country?
10. What effect has the increased value of farm land upon this tendency?
11. Why do farmers often have to use migrating, casual laborers who drift into the country during the harvest and then back to the cities?
12. Is a farm mortgage a sign of poverty among farmers?
13. How may agricultural credit be improved?
14. What other lines of co-operation may the farmers develop?
15. How do farmers generally market their produce?
16. What is the relative importance of the local and foreign market to the farmer?

17. What is the relation of the railway problem to the farmer?
18. How does the stock exchange affect the farmer?
19. What is the educational panacea for the farm problem?
20. Explain the defects of the educational facilities of the Little Red Schoolhouse.

References.

- (a) TAYLOR, *Agricultural Economics*.
- (b) *World's Work*—18:12134 (Banks for all people).
- (c) *Westminster*—167:673-'5.
- (d) *World Today*—17:882-'3.
- (e) *Land Banks*—Fortnightly—92:1079.
- (f) *Jour. of Pol. Econ.*—17:92 (Fruit Growers' Crop).
- (g) *World's Work*—13:8246 (Mail Order Houses).
- (h) BLISS, *Cyclopedia of Social Reform*, p. 374 (Raffeyen Banks).

CHAPTERS XXXII AND XXXIII.

PUBLIC EXPENDITURES AND REVENUES.

I. PUBLIC EXPENDITURES TEND EVERYWHERE TO INCREASE.

Reason:

- (a) "Nationalism, Socialistic Experiments, and Armament." Henry C. Adams.
- (b) "Social Sympathy." Bryce.
- (c) "Extravagance of democratic governments." Beaulieu.
- (d) "Technical progress and concentration of population in cities." Bastable.
- (e) "Growth of **common needs** and corresponding extension of public activities." Wagner.

II. CLASSIFICATION AND DEFINITION OF PUBLIC REVENUES.

a. Industrial receipts.

Returns from enterprises of a quasi-industrial nature owned or operated by the state, e. g. public lands, water works, post office, etc.

b. Credits.

- 1. Government bonds.
- 2. Treasury notes, etc.

c. Special Assessments and Fees.

Special assessments are levies on the owners of property in fixed local territorial districts for benefits accruing to the property as a result of public improvements; while **fees** are levied on no class in particular, but on individuals, and are returns for any public benefits or services to the individual, whether they affect his personal property, real estate, or anything esteemed of value. In special assessments the total sum to be collected is absolutely fixed and determined upon before-

hand; while the revenue from fees depends on various circumstances, such as general prosperity, condition of markets, and so on.

III. CHARACTERISTICS OF A GOOD REVENUE SYSTEM.

- (a) **Equitable**—burden fairly distributed, there is absence of double taxation, etc.
- (b) **Adequate**—sufficiently elastic to meet the expanding needs of the state and yet not yielding a surplus revenue.
- (c) **Well organized**—it is a stable system, with clear differentiation of state, federal and municipal revenues, not an aggregate collection of unrelated laws.

Quiz Questions.

1. Enumerate ways in which a state may secure revenues. What ones are in use in Wisconsin?
2. Classify public revenues and explain the principle of classification used.
3. Contrast fees with public prices.
4. Contrast special assessments with taxes proper.
5. Do taxes tend to increase or decrease? Why?
6. What method of fee collection should be used?
7. Name four principles of just distribution of taxation.
8. Is the principle that taxes should be equal and uniform defensible?
9. What principle of distribution do you accept?
10. Contrast progressive with regressive taxes.
11. Should taxes be levied according to the money income or according to the aggregate sacrifice involved?
12. What objections are there to progressive taxes?
13. In what way do expenditures of the government bear upon taxes? Illustrate by good roads, public schools, etc.
14. What is meant by shifting of taxes? Name some taxes that may be shifted.
15. How does mobility affect the shifting of taxes?
16. May personal taxes be shifted? May taxes on rent be shifted? If so, how?



17. Contrast the subject with the object of taxation.
18. In what way are the purchasers of land exempt from taxation on land?
19. Enumerate the fallacies in the Single Tax theory of taxation.
20. Explain the diffusion theory of taxation. Is every old tax good, and is every new tax bad? Why?

Problems.

(See end of the chapter in the text book.)

CHAPTER XXXIV.

THE SINGLE TAX.

(Reference; Outlines pp. 364-7, 595-8.)

- I. **THE SINGLE TAX** movement is a program of economic reform which plans to take, by means of taxation, much or all of the economic rent now obtained by private owners.

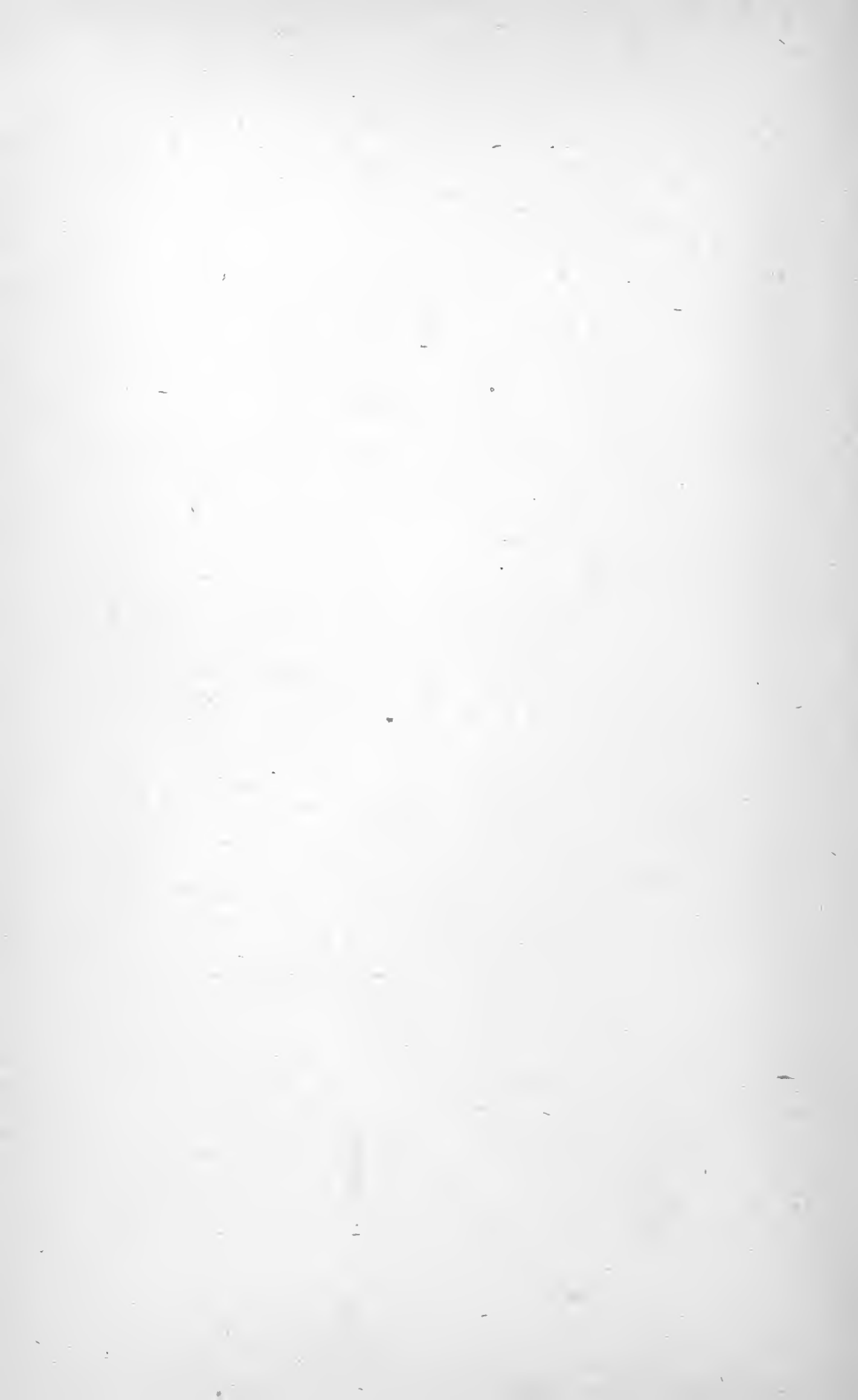
II. **FUNDAMENTAL CONTENTIONS.**

1. The social origin of ground rent.
2. The unshiftability of a land tax.
3. The ultimate burdenlessness of a land tax.

III. **THE CLAIMS OF HENRY GEORGE AND OF THE SINGLE TAXERS.**

1. All men have equal rights to land because it was given by the Creator to the whole human race. No man has a right to own land.
2. Equal right to land does not mean an equal division of all land among all people, but joint enjoyment of rent.
3. Land value is chiefly site value; i. e. socially created value.
4. Socially created value should be confiscated by society, not labor-created values, e. g. buildings and improvements.
5. Stocks and bonds should not be taxed because they are merely certificates of ownership of capital (which should not be taxed) or of land which has already been taxed.
6. Privilege, i. e. law-given power, is said to be the basis of all rents now derived from land.
7. Wealth is distributed through two channels: 1, wages; 2, privilege (landownership).
8. If privilege, i. e. land-ownership, be abolished wages will be higher and prices fairer. The portion now





going to landowner would then flow to laborer. Wages would be increased fifty per cent or more.

9. Every improvement in productive power tends to increase rents.
10. By confiscating rents every improvement in industry would redound to the benefit of the laborers.
11. Revenues derived from confiscating rents would be adequate to needs of society, and would grow as rapidly as the wants of society increased.
12. Poverty would disappear because the chief cause of poverty (private property in land) would be eliminated.

Criticism.

V. INJUSTICE.

The **landowner** sometimes gets an unearned increment but **other** classes in society **also** receive unearned increments, e. g. owners of Standard Oil stock, Western Union stock, Life Insurance Companies' stock, Railway stock, etc. It is unjust to single out **the** land owner and confiscate his surplus while letting others go.

VI. PRACTICAL DIFFICULTIES.

Single Tax:

- (a) Is difficult to administer; (b) is an inelastic tax and probably in the long run inadequate; (c) would make police control by means of taxation very difficult; (d) makes no provision for cases where aggregate real estate values in a community decline.

VII. POLITICAL DEFECTS.

If public revenues could be obtained from rents without taxation, it would take away the main incentive of the average citizen to participate in government, and it would probably mean the downfall of democracy. The worst despotisms in history have been based on the ownership of land by kings.

VIII. MANY PRINCIPLES OF SINGLE TAX THEORY SOUND.

- (a) That more of the unearned increment in land as well as in other lines should be taken by taxation.
- (b) That cities should secure the full franchise value from public utilities.
- (c) That lands around new public parks should be secured by cities so as to obtain the enhanced value due to parks.
- (d) That unused property held for speculation should be taxed proportionately higher than used land.

IX. FALLACIOUS CLAIMS:

- (a) That it is an adequate solution of labor problems.
- (b) That it is an adequate solution of the problem of poverty.
- (c) That it is a good theory of national prosperity. "A patent medicine for ills of the body politic guaranteed to cure all and still be perfectly harmless."

Quiz Questions.

1. What is meant by the single tax?
2. Contrast the application of the single tax theory with land nationalization.
3. Explain three methods which the government might adopt for getting possession of all land.
4. What method does Henry George advocate?
5. What relations between property and poverty did Henry George try to discover in his book "Progress and Poverty?"
6. Contrast the views of Henry George with those of the Socialists, as to the chief causes of poverty.
7. If it is in the interest of progress that all land should be nationalized, is there any reason why land now in private hands should not be confiscated?
8. If land is originally stolen property, i. e. stolen from society, would any present holder be justified in retaining it?
9. What justification is there for private property in land?



10. Would it be right for the government to take by means of taxation all the unearned increment of land?
11. Do land owners pay as high taxes as other classes of property owners?
12. If the state collected in taxes all the economic rent of a piece of land, how much would it be worth to the owners?
13. If it confiscated $\frac{1}{2}$ the rent how would it affect the price?
14. What is the attitude of the single-tax toward public ownership of public utilities; e. g. street cars, water works, etc.?
15. Would a single tax on land rent yield an adequate revenue?
16. Does rent increase from year to year?
17. Have rents ever declined anywhere? Cite examples.
18. What ethical objections are there to the single tax?
19. What constitutional difficulties are there in the United States?
20. What administrative difficulties are there in the United States?
21. Compare a tax which takes all rents, and a tax which takes all future unearned increments. May the latter be justified even though the former is condemned?
22. How would a tax on future unearned increments be affected by a depreciating currency?
23. Would the single tax if applied generally prevent land improvement from being made? How?
24. Would the single tax encourage improvements on farms? On city lots?

Problems on the Single Tax.

1. Suppose that 20% of the gross ground rent were now taken in taxation and that the government should take an additional 1% each year during the next fifty years, what effect would it have on land credits? On the value of farm mortgages? On the wealth of the classes whose property consists largely of land?
2. A invests in 1904, \$10,000 in bank stock of a newly organized bank, B invests the same amount in lands in a new suburb. At the end of ten years A's stock is quoted at \$225 per share and B's land can be sold at \$25,000. A has received on an average 12% in dividends during the entire

time. B has received nothing in the form of rent but has paid for street improvements, sidewalks, etc., in addition to the regular taxes, on an average, \$200 a year. B's property if improved would yield on an average \$1,500 per annum. What effect on the relative well being of A and B would a single tax system have, assuming that it was decided in 1914 that only 50% of the aggregate ground rents are needed to run the government?

3. Assume that the bank stock and land values increase at the rate indicated in problem 2 and assume that the government in 1914 decides to take each year by taxation 50% of all increases in land values. What will be the effect on the value of A's property as contrasted with B's?
4. If every land-owner has capital the value of which is exactly equal to the value of his land, how would a single tax, levied exclusively on ground rents, affect his well-being? If 75% of the land owners have three times as much land value as capital values, and 25% have ten times as much capital value as land value, how will the single tax affect the wealth of the two classes respectively?
5. May farmers be induced to resort to intensive cultivation by high taxes on farm rentals? How? May high taxes in cities cause owners of vacant lots to improve them? How?
6. Suppose a lumberman owns a forest tract worth \$25,000 on which he has a \$20,000 6% mortgage. Suppose the state takes by taxation \$1,500 a year—the total estimated rental returns for the tract. Will such a tax tend to promote conservation of the forest or will the trees be cut and sold as rapidly as possible?
7. Suppose a person owns a \$100,000 building on a valuable business site and suppose the estimated ground rent taken by taxation is greater than the net returns of the building and lot, what alternatives are open to the owner?

Topics.

- A. Write an account of the methods of assessment and collection of the Prussian income taxes.



- B. Discuss the English income tax law with special emphasis on its bearing on corporate income.
- C. Discuss the advantages and disadvantages of taxes on checks, bills of exchange, deeds, mortgages and other similar transactions.

References:

- SELIGMAN, *Essays in Taxation*.
- WALKER, *Political Economy*.
- HIRSCH, *Democracy v. Socialism*.
- WALLACE, *Land Nationalization*.
- SHEARMAN, *Natural Taxation*.
- GEORGE, *Progress and Poverty*.
- GEORGE, *Social Problems*.
- ELY, *Taxation in American States and Cities*.
- ADAMS, *Finance*.
- FILLEBROWN, A. B. C. of the Single Tax.

CHAPTER XXXV.

DISTRIBUTION OF THE BURDEN OF TAXATION.

I. CLASSIFICATION.

1. (a) Federal.
(b) State.
(c) Local.
2. (a) Direct.
(b) Indirect.
3. (a) General property taxes.
(b) Import and Export Duties.
(c) Excise taxes.
(d) Inheritance taxes.
(e) Corporation taxes.
(f) Income taxes.
(g) Poll taxes.

II. SHIFTING AND INCIDENCE.

1. **Shifting** means the process of transferring the burden of a tax from one or more persons to those persons who purchase or use the commodity taxed.
2. **Incidence** means the ultimate bearing of the burden by some point or person.
3. The **shiftability** of a tax in a competitive industry depends upon the elasticity of the demand for the commodity or service on which the tax is levied.

III. JUSTIFICATION OF TAXES.

1. **Confiscatory theory.** The burden of taxation should be concentrated as much as possible on those classes of individuals who receive unearned incomes. (Society should take what it itself has created.) Criticism: There is a difficulty in determining exactly what incomes are socially created, and further difficulty in segregating and confiscating them.
2. Taxes are a species of insurance premiums paid by the individual to the government for protection and



other services it renders to him or his property. (Benefit theory.) This theory is not generally accepted by economists although frequently used in the press and in political campaigns.

3. Regardless of benefits, taxes should be levied according to the taxpayer's ability to pay.

(a) The **Proportional** theory advocates that taxation should not be used as a means of equalizing the distribution of wealth.

(b) The **Progressive** theory assumes that tax paying ability increases faster than income, and that the rate of taxation should increase progressively.

Quiz Questions.

1. Contrast direct and indirect taxes. Give three definitions of indirect taxes.
2. Enumerate the kinds of taxes used by the federal government. What ones are most important?
3. Does a customs duty necessarily raise prices? Is it protective if it does not raise prices?
4. Enumerate the chief defects of our customs taxes.
5. Contrast specific with ad valorem duties.
6. What is an excise tax? May an excise tax be levied without the use of stamps?
7. Upon what commodities are excise taxes levied?
8. Enumerate the defects of excise taxes.
9. Name the chief advantages of excise duties.
10. What is an income tax? Have we ever had a federal income tax in operation?
11. Why was the income tax of 1894 declared unconstitutional?
12. What is the status of the federal income tax at present? How is it constitutional?
13. Have state income taxes been successful? Why? What difficulties are there with the state income tax?
14. Enumerate the chief features of the present income tax law.
15. Discuss the advantages and disadvantages of the income tax.

16. Name occupations in which it is difficult to ascertain the income of the person.
17. Explain in detail how you get at the income of a farmer. Would you deduct something for the use of the farmhouse; for the farmer's vegetable garden; for the use the farmer has of his carriages and horses, etc.?
18. Are there any objections to a progressive inheritance tax?
19. Enumerate the chief advantages and defects of inheritance taxes.
20. Should inheritance taxes be levied by the state or the federal government?
21. In what way does the general property tax lack uniformity?
22. How may a general property tax on land be evaded?
23. What are the chief sources of the frauds connected with the personal property tax?
24. In what way is the personal property tax regressive?
25. Enumerate methods of reform of the general property tax.
26. What kind of corporation taxes have we in Wisconsin?
27. Name the progressive features in systems of corporation taxation.
28. Explain the chief objections to business and license taxes.
29. What objections are there to poll taxes?
30. Discuss double taxation and the overlapping of taxes between states, municipalities and the federal government.



CHAPTER XXXVI.

Quiz Questions.

1. Name three great ancient writers whose books contain discussions of economic questions.
2. What is the labor problem as these writers saw it? What was their attitude toward slavery?
3. Was **wealth** or **man** or the **State** the most important thing in the philosophy of the Greeks? Contrast the attitude of modern economists with the Greek writers on each of the above.
4. What was the attitude of the Roman writers toward interest, toward commerce, toward agriculture?
5. What change in the economic ideas of the Romans did Christianity bring about?
6. What was the attitude of the early Christian fathers to **property**, to **interest-taking**, and to **philanthropy**?
7. Why did the early Christians believe that trade was harmful?
8. Name some of the leading statesmen and writers who advocated the principles of mercantilism.
9. What were the chief principles of the Mercantilists?
10. Who were some of the leaders of the Physiocratic school?
11. Enumerate the fundamental principles of the Physiocrats.
12. Who was Adam Smith? What and when did he write?
13. Enumerate the fundamental economic theories of Adam Smith.
14. What principles in Adam Smith's teaching were along the line of **laissez-faire**?
15. What rôle did man's self love play in the economic philosophy of Adam Smith?
16. Name four of the leading writers of the classical school of economic thought.
17. What is the fundamental principle found in Bentham's philosophy?
18. What is Malthus's chief contribution to economic thought?

19. Who was Ricardo, and what is his most important contribution to economic thought?
20. What rôle did the "Iron Law of Wages" play in Ricardo's theory of distribution?
21. What factor of distribution is a residual claimant according to Ricardo's theory?
22. Who was John Stuart Mill, and when did he live?
23. What is the difference between the laws governing production of wealth, and the laws governing distribution of wealth, in Mill's economic theory?
24. Was Mill an inductive or deductive writer?
25. Name some of the precursors of the modern socialistic school of writers.
26. Who were the classical writers on socialism?
27. What method did the Historical School use, and what contribution did it make to economic theory?
28. Who were the economic optimists? Explain why they were called optimists.
29. Name three of the early American writers on economic subjects.
30. What is the distinct contribution of the Austrian school, and what writers have been most successful in the development of these theories?
31. What groups, or schools of economic thought exist at the present time? Explain the chief characteristics of each.

TOPICS.

General Instructions.

All collateral reading for the semester may be done in connection with these topics. Notes must be taken and topics constructed in the form required by the instructor. Six topics are required during the semester. The last topic is due two weeks before the beginning of the examination period. Only a few of the best references are given here. The student is required to find others and to give a complete bibliography of all books and articles used, and at the beginning of each topic, the exact page and volume references must be put in the footnotes. For explanation of the Form G Topics, see p.

Main Sources.

1. General texts and references in Econ. Reading Room.
2. Card catalogues in University Library.
3. Poole's index and Readers' Guide to Periodical Literature, in Magazine Room Library.
4. Congressional Bibliographies on many topics may be seen in the Document Room. Special permission may be secured to use the Government Reports in the Legislative Reference Library in the South Wing of the State Capitol, and is also available for special investigations.

Abbreviations.

- (E. R. R.)-----Economics Reading Room.
(L. R. L.)-----Legislative Reference Library.
(D. R.)-----Document Room.
(H. L.)-----Historical Library.
(U. L.)-----University Library.
(U. L. S.)-----University Library Stacks.
(M. R.)-----University Library Magazine Room.
(122)-----Room 122 Library.

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- (a) Origin.
- (b) Causes.
- (c) Special functions.
- (d) Changes it introduced into the banking and currency system of the U. S.
- (e) Subsequent development.

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- (a) Causes.
- (b) Panic conditions.
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- (b) Its machinery.
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- (a) Provisions of the law.
- (b) Its administration.
- (c) Effect on Gov't. finance.

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